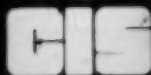


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DEPARTMENT OF VETERANS AFFAIRS INSURANCE
PROGRAMS

HEARING
BEFORE THE
SUBCOMMITTEE ON
COMPENSATION, PENSION AND INSURANCE
OF THE
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
ONE HUNDRED FIRST CONGRESS

FIRST SESSION

JULY 19, 1989

Printed for the use of the Committee on Veterans' Affairs

Serial No. 101-22



U.S. GOVERNMENT PRINTING OFFICE

21-6437-5

WASHINGTON : 1989

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

14761-32

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DEPARTMENT OF VETERANS AFFAIRS INSURANCE PROGRAMS

Wednesday, July 19, 1989

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMPENSATION, PENSION,
AND INSURANCE,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:08 a.m., in room 334, Cannon House Office Building, Hon. Douglas Applegate (chairman of the subcommittee) presiding.

Present: Representatives Applegate, Sangmeister, Parker, Evans, Penny, and McEwen.

OPENING STATEMENT OF CHAIRMAN APPLEGATE

Mr. APPLEGATE. I think we will go ahead and get started.

The vice chairman of the committee, Bob McEwen, is on his way, and Mike Bilirakis is also on his way, so we are just going to go ahead and move ahead.

As you know, we are here this morning to hear testimony on the operation of the eight insurance programs either administered or supervised by the DVA. As noted by DVA, these insurance programs provide over \$214 billion in insurance protection to 7.1 million members of the Armed Forces and veterans.

I'm very happy to note that the programs are continuing to run smoothly, so we have been very fortunate in that. It is hard to know whether this is a function of the type of benefits provided or of the program's good staffing, but I think we should give credit where credit is due. I will assume the success of the program is due to good management and proper staffing.

I only wish the many other benefit programs that DVA administers could be operated as well and that more emphasis could be placed by the Bush administration on the need for more staffing in other parts of the Veterans Benefits Administration. I am especially pleased to see that new initiatives, such as the toll-free number and discounted premium incentives, continue to be developed and implemented. I strongly encourage the development of any initiative which could further enhance the operation of the program.

Finally, I want to acknowledge the excellent work by both the Department and the Office of Servicemen's Group Life Insurance in responding to claims resulting from the tragic explosion aboard the *U.S.S. Iowa* which, indeed, killed 47 crew members. The response to this tragedy was immediate and comprehensive.

Before we get started on our witnesses, I would like to recognize our very distinguished vice chairman of the subcommittee, the Honorable Bob McEwen, from the great State of Ohio, a long-time friend who works tirelessly on behalf of our Nation's veterans.

OPENING STATEMENT OF HON. BOB MCEWEN

Mr. MCEWEN. Thank you, Mr. Chairman.

I've been sitting here waiting patiently for you to acknowledge me, and so I'm grateful for this opportunity to share with you my support for your willingness to hold these hearings, as is your custom, with fairness and grace. It is a pleasure to be here among friends from the Department of Veterans Affairs and with some of our most active and respected veterans' organizations.

While it is always an honor and a pleasure to join with my colleagues in assessing veterans policy with its principal executing agency and advocacy groups, it is especially satisfying when our agenda affords an opportunity to review programs which have been unqualified successes for our veterans. We have such an agenda today.

Our veterans have been well served by the Government life insurance programs administered or supervised by the Department of Veterans Affairs. With more than seven veterans and members of the uniformed services relying on these programs, it is reassuring to know these programs are doing a good job.

I look forward to today's panels' presentations and discussions to offer an instructive overview of existing programs while generating suggestions as to how component parts might continue to be improved.

I know some of our veterans' representatives have recommendations in that regard, and I'm eager to hear them, and, with that, Mr. Chairman, I echo your welcome to our guests, thank them for appearing this morning, and thank you for holding these hearings and for your leadership of our subcommittee.

Mr. APPLEGATE. Thanks, Bob.

We will now proceed to our first witness, John Vogel, who is always here and always ready, willing, and able to express his comments on his Department, and he does a very good job.

John, it is always good to see you. Before we get started, I would like to ask my colleague, Mr. Sangmeister, if he has any comments that he would like to make at this time.

Mr. SANGMEISTER. Not at this time, Mr. Chairman.

Mr. APPLEGATE. Mr. Parker has come in, and we will ask if he has any particular comments he would like to make before we get started.

Well, he yields his time to you, so you may begin.

STATEMENT OF R.J. VOGEL, CHIEF BENEFITS DIRECTOR, DEPARTMENT OF VETERANS AFFAIRS, ACCOMPANIED BY ROBERT CAREY, DIRECTOR; AND PAUL KOONS, ASSISTANT DIRECTOR, DVA REGIONAL OFFICE/INSURANCE CENTER, PHILADELPHIA, PA

Mr. VOGEL. Thank you, Mr. Chairman. It is a pleasure to be with you today.

I have with me, to my left, Bob Carey, the Director of the Philadelphia Regional Office and Insurance Center, and, to my right, Paul Koons, the Assistant Director for insurance at Philadelphia.

It is a pleasure to be able to share with you some comments on the program's operations and several of the accomplishments made since last year's oversight hearing.

DVA's administered and supervised policies provide over \$214 billion in insurance protection for 7.1 million veterans and members of the uniformed services. When measuring that program against commercial companies, it would rank eighth in terms of coverage in force.

The six administered and two supervised insurance programs are in sound financial condition and are self-supporting, except for two programs that provide coverage to disabled veterans at the same premium rates as to non-disabled veterans.

The disbursements in the administered programs are projected to be \$1.9 billion this year. Of that, \$1 billion or something in excess of \$1 billion will be paid in dividends to 2,938,000 policyholders with participating policies.

When we revised our regulations in 1987 to provide for a variable loan interest rate, the immediate result was a reduction of the then current rate of 11 percent to 8 percent. That rate is based on the June interest rate for U.S. Treasury securities, 10-year constant maturities rounded down to the next whole number. That indicator is reviewed annually, and if there has been a change from the previous year we make the adjustment in the interest rate.

The interest rate on those securities as of the end of June was 8.28 percent. Therefore, loans will carry a rate of 8 percent at least through September 1990.

The insurance programs supervised by VA are the Servicemen's Group Life Insurance and Veterans' Group Life Insurance Programs. They are handled on a day-to-day basis by the Office of Servicemen's Group Life Insurance. The premiums collected have been sufficient to cover the entire cost of the programs, including all VA and SGLI administrative costs.

The SGLI program has been entirely self-supporting in all respects for the last 14 years. Through a number of cash management initiatives that resulted in increased interest earnings of three-quarters of a million dollars as well as legislation supported by this subcommittee which exempted the SGLI program from over \$4 million in State premium taxes, we have been able to take advantage of the excellent financial condition of the program to a point where we will be able to maintain the low monthly rate of 8 cents per \$1,000 of coverage for at least the next 5 years.

In managing both the administrative and supervised programs, our primary goal is to improve service to veterans and to maximize the benefits available to pay to Government life insurance policyholders and beneficiaries. I would like to briefly discuss some of those recent innovations intended to achieve those goals.

One of our most recent and significant initiatives was the Secretary's decision to increase by an average of 10 percent the amount of paid-up additional insurance that can be purchased with insurance dividends. That will result in \$470 million of additional insurance protection being added automatically to existing paid-up addi-

tions at the end of this year. In addition, policyholders will be able to purchase approximately 10 percent more paid-up insurance with the same amount of dividend dollars. We undertook a similar initiative in 1987 when paid-up additions were increased 15 percent.

This particular initiative provides our older insureds with an opportunity to increase their insurance coverage automatically without regard to health or premium considerations. For example, a 65-year-old earning a dividend of \$350 can purchase about \$693 of additional paid-up insurance. As of the end of 1988, there was a total of \$4.1 billion in additional paid-up coverage in force. Due to the excellent financial condition of our respective insurance programs, we are able to modify the interest and mortality assumptions used in these programs. That, in turn, allowed us to increase the coverage amount with no corresponding costs being passed on to the insured.

In 1989, we amended our regulations to eliminate gender-differentiated mortality tables in determining annuity payments under the veterans' special life, veterans' reopened, and the service disabled insurance programs. That means that the amount received by female annuitants will be the same as for their male counterparts. The National Service Life and the USGLI programs are already gender neutral.

As we did previously in the NSLI program in 1985, we undertook a major step in 1988 to reduce premium costs for older policyholders. We amended our regulations to cap the premiums at the age 70 rate for the Veterans' Special Life Insurance Program. VSLI coverage is for veterans who served during the Korean war era.

During the last insurance oversight hearings before the subcommittee, I discussed legislation that we proposed to implement two program enhancements. That legislation, supported by this subcommittee, was enacted in October of 1988 and allowed us to go forward with those enhancements.

First, Public Law 100-687 granted authority to pay interest on settlements from the date of death or date of maturity for endowment policies to the date of payment. We are in the process of implementing that now. The second enhancement authorized the increase of the discount rate for paying premiums in advance for various Government life insurance programs. We will initially increase the discount rate to 7.5 percent.

In addition to those program enhancements, we took several other actions that will improve the delivery of our insurance services and benefits. We introduced a nationwide toll-free telephone service to policyholders. It has proven to be a very successful endeavor. We have had a great response to that since we installed it in April of 1988. We have answered over 700,000 calls since then, and the average daily volume is about 2,500 calls.

That system takes advantage of modern telecommunications and the technology of our re-designed insurance data processing systems. It provides our insurance specialists with immediate access to insurance records. We have been able to cut the response time from an average of about 11 days for written inquiries down to a matter of minutes. Most of the callers get their concerns taken care of while on the telephone, and the remaining cases we accomplish by calling them back or by sending a letter of confirmation,

or we have to do some ADP input to adjust the account. We intend to build on that success and will be testing an after-hours messaging system for that toll-free service.

We have also completed a number of initiatives directed at offering the policyholders wider premium options and reducing the number of remittances that require processing. In January of this year, we completed a mailing to advise the 1.4 million policyholders who were paying their premiums directly of a new premium payment option. We call this new option VA MATIC, which is technically referred to in the banking industry as a pre-authorized checking payment. Under this type of payment system, policyholders can elect to have their premiums automatically deducted from checking accounts each month through a wire transfer. About 116,000 policyholders have selected that VA MATIC system.

In addition to that, we conducted a mailing to encourage policyholders to pay their premiums by having them automatically deducted from VA benefits and a mailing encouraging them to pay them quarterly, semi-annually, or annually, rather than monthly.

Those three initiatives will reduce the number of remittances we process by over 2 million and provide an annual savings to us of about \$350,000, but for the insureds it also means \$547,000 this year in postage savings they would otherwise incur.

Our modernization of our ADP system is ongoing. The main focus remains in developing an on-line system. Thus far, we have completed and installed eight data entry functions, which represent 20 percent of the functions we intend to have in place when the redesign effort is completed.

We have been able to increase participation in the Veterans' Group Life Insurance Program by several initiatives, one of which is to have an application made for VGLI coverage at the time of separation rather than to have the applications mailed. We tried that at Fort Dix. It increased the participation rate by 55 percent, well above the previous 30 percent. They can have their premium deducted in advance, and we provide a discount for that. We are doing that at all major Army separation centers and are working with the Air Force and the other services to have that put in place for them as well.

We have also developed additional premium payment options which will provide convenient payment alternatives for those insured under the VGLI program which will, at the same time, reduce the program's operating costs. Retirees can have them deducted from service retirement pay. That will be a great enhancement. Another, which has been available since March, allows VGLI policyholders to pay premiums on an annual basis.

In closing, I would like to comment on the actions we took as a result of the tragic accidents experienced earlier this year to our Armed Forces which resulted in fatalities. Most notably, the explosion on the *U.S.S. Iowa* on April 19, 1989, took the lives of 47 crew members. Fortunately, all those individuals were covered by SGLI.

Through the cooperative efforts of the Department of Veterans Affairs, the Department of the Navy, and the Office of Servicemen's Group Life Insurance, the payment of those *Iowa* claims was expedited, and except for a few claims being contested among potential beneficiaries, all were paid within 1 day of receipt of the ap-

plication. We believe that one of our most important functions is to provide speedy service to VA beneficiaries at times like these.

Mr. Chairman, that concludes my prepared remarks on the status of our insurance programs. I would be pleased to answer any questions you or other members of the subcommittee may have.

Thank you.

[The prepared statement of Mr. Vogel appears at p. 21.]

Mr. APPLEGATE. Thank you very much, John. I appreciate that good information.

I understand that the Philadelphia Insurance Center was recently selected for a Presidential Council on Management Improvement Award. Would you care to elaborate on that, give yourself a commercial?

Mr. VOGEL. Thank you very much. I'd be pleased to, and you are very gracious to mention it, Mr. Chairman.

In early June, the President's Council on Management Improvement presented to the Philadelphia Regional Office Insurance Center a Productivity Improvement Award. It really is reflective of the good work done both in the insurance activity as well as the entire regional office.

Bob Carey, the Director, and Paul Koons, next to me, are very proud of that, of course; we are of them. Maybe Bob would like to say a word, but before I turn it over to Mr. Carey I'd like to make a comment that, while the three of us sit here and are proud to describe briefly what that award meant, the credit goes to the quality of the employees we have at Philadelphia. Good leadership only takes you so far, you have got to have good folks working with you, and I can't let the opportunity pass without making that comment.

Mr. Carey.

Mr. CAREY. Thanks, Mr. Chairman, for mentioning it, and I would really just echo what John said. It is a reflection of the employees and the entire staff in Philadelphia. We are proud of it. A number of the initiatives that John talked about just a minute ago are part of the reason for that recognition. We appreciate your raising that. Thank you.

Mr. APPLEGATE. Well, it is certainly worthy of note when anybody is commended for good operational ability.

Mr. VOGEL. Mr. Chairman, if I might, that is a Government-wide competition or award. Very few of them are given. We were very proud of the fact that the only Cabinet Secretary who attended—there were other Departments that participated, but the only one who attended the award ceremony was Mr. Derwinski.

Mr. APPLEGATE. Let me just ask you this: If you had a wish list that you needed to sort of improve your operations in that area, what do you think would need to be done?

Mr. VOGEL. We can overcome impediments that have to do with operational things if they have to do with processes except when we need ADP programming. We are faced with a rather archaic, hard-to-manage computer system. We have expended a lot of resources to modernize that, to get the code, the software, the programs, in a modern form so that we can make changes. It is very laborious for us to make changes. They take a long time. We expend a lot of our resources just in what they call the mainte-

nance of the system, just the routine, keeping it running sort of thing.

We want to try to provide some more programmer and analyst resources into getting that converted because we do believe that the small up-front investment allows big payoffs in the future not only to the people running the insurance program but those who are maintaining these archaic computer systems. That is probably the biggest challenge we have.

A couple of the initiatives, I will be very frank, we asked for in legislation and you very capably supported, are things we identified that we could do to improve the program, but we have not yet been able to implement. This is confessional time, I guess. We have not yet been able to implement them because of the long time it takes to get the computer programmed. That is sort of embarrassing when we ask for it and then, 6, 8, 10 months later, we can't tell you that we have done it, because all these things have to do with additional benefits, insurance benefits for our insureds. That is probably the single thing that most frustrates management. We are on the way towards getting it done. We need to provide some additional resources for that.

Mr. APPLEGATE. Okay. Thank you very much.

Mr. McEwen.

Mr. McEWEN. Thank you, Mr. Chairman.

First of all, I would join the chairman in an expression of gratitude to your leadership and the employees in Philadelphia. The Department of Veterans Affairs is full of dedicated employees that work hours longer than that for which they get credit. They give service that is taxing upon their emotions and physical limits and yet, in my judgment, are not adequately acknowledged by the Nation for the service that they make. To do so in this instance and, as you mentioned, to have the Secretary in attendance to acknowledge it, speaks well for the Department, for the leadership of the Department, and certainly for the employees that were recognized, and I join the chairman in expressing the gratitude of the Veterans' Affairs Committee and the Congress of the United States to them as well.

Mr. Vogel, you mentioned the frustration with implementing the computer system. How far along are you on that?

Mr. VOGEL. Those particular initiatives that we needed legislation to do were enacted last October. I think the installation dates are October and December of this year. Maybe Mr. Koons can give you those dates.

Mr. KOONS. We hope to get the two legislative items in by August of next year, 1990. In terms of the data entry functions which Mr. Vogel mentioned, we have a 1992 target date for that. That is the on-line system we are developing. The reprogramming of the system is expected to be completed by the end of this year.

Mr. McEWEN. By when?

Mr. KOONS. By the end of this year. To bring the programs into a modern computer language; we are still in a rather old language.

Mr. McEWEN. Fiscal or calendar?

Mr. KOONS. It is calendar year.

Mr. McEWEN. You bid this out, I take it.

Mr. KOONS. The work is being done through a combination of resources. The on-line development is being done in-house by VA employees. The conversion of the programs from one language into another is being done through a series of contractors.

Mr. McEWEN. And you bid that, I trust.

Mr. KOONS. Yes.

Mr. McEWEN. On time, quality, and cost.

Mr. KOONS. That is correct, sir.

Mr. McEWEN. And how is that working?

Mr. KOONS. It has been going rather slowly. As Mr. Vogel indicated, we have made progress. It is something that started back in 1980.

Mr. McEWEN. That is a really difficult point for me. I served on the Intelligence Committee, and the idea that we have so many computers throughout the Government that don't work and don't talk to each other and have their own programs is just something that is very, very difficult for me to comprehend. The idea that everybody and his brother is in that business—I mean to get programmers and converters is like standing on a street corner and raising your skirt above your knee; they will come running. The Federal Government seems to be the only entity on the planet that has difficulty being able to do these very simple procedures.

I would just hope that you are not in the box that HUD and HHS and the Defense Department and the others seem to be, in making complicated a very simple effort, and that is hiring one of these 10,000 computer programming agencies around the Beltway. They ought to be able to do this, get it out, get it done, get it over with, and get it delivered, and under cost, because there is a guy right behind them that will do it cheaper, better, and faster.

So I would just lay that aside. If you are trying to do it in-house, then I am not surprised, quite frankly, but if you are bidding it, I hope you just don't give a contract and let them come back in 4 months and say, "We're sorry, we didn't know this, and we didn't know that." I'd say, "Forget you." It always looks simple from a distance, but I'll tell you this: Private industry doesn't put up with it.

Mr. VOGEL. I would like to make a comment, if I may, Mr. McEwen. We are on actually the third contractor to do this language conversion. We solicited bids. The language is so old—it is called 70/80 Autocoder—that, to our best knowledge, based on a response to a very wide advertisement, we have almost the only individual who has a computer program that will convert ours.

I was in Philadelphia. We sent some of our technical staff down to Drexel, a fine school of computer science. Their interest in the 70/80 Autocoder system was for historical purposes.

Mr. KOONS. Historical.

Mr. VOGEL. The professor wanted to tell the students, "You can come out here and look at the Rosetta Stone that they are using out in Philadelphia." It is just that old, and there is just nobody around who is familiar with it anymore. We have re-employed annuitants helping us in this endeavor. At least we have seen some change over time.

The on-line data entry development that we are doing in-house, which is some of our own computer development, aside from the conversion, is going rather well.

Mr. McEWEN. Mr. Vogel, who is responsible for that? Why are we in this condition?

Mr. VOGEL. With the computer programming?

Mr. McEWEN. Yes. Members on Capitol Hill don't do that. I mean the people in the barber shop down the street, or the people where you drop your shirts off a block and a half from here, they go in and punch up a computer and tell you what the cost is and when you can get them back. Everybody else seems to function. Why is the Federal Government unable to? Who makes the decision that we are going to have the oldest, most inoperative system on the planet?

Mr. VOGEL. What happens is, generally, the competition for resources. The computer system we have in place was the envy of the entire commercial insurance industry in the early sixties. It really was a fine, fine system and still is. It is a little brittle, a little hard to work with, but it still is a fine system. We maintain all these policies in force through that system, and we declared a victory on that and let it be. The agency then spent their resources on the processing systems for compensation, pension, and education and simply let it be for a while.

Mr. McEWEN. Okay.

Mr. VOGEL. We have explored off-the-shelf software from commercial insurance companies, and there are some awfully big outfits out there, bigger than us—Metropolitan, Equitable—and the people who provide the computer service, and they came to us and said, "Your system is bigger than anything that we can handle," and they left us.

Mr. McEWEN. Okay.

Mr. VOGEL. We could not buy something off the shelf and put it in.

Mr. McEWEN. I just marvel at how every agency seems to be similar.

I am working on a piece of legislation that would allow a person to have their retirement transfer from company to company. They would pay into a fund, and it would be guaranteed. The Federal experts come in and say, "Oh, that's too complicated. The person might change jobs three or four times during a lifetime. How are we ever going to trace it?"

My wife can walk into some obscure little hole in the underbelly of a trash heap in Hong Kong and buy a purse with a Mastercard, and by the time I get home they not only have found me, they have the price, they have the exchange rate at that time, that day, without any seeming difficulty, and yet, we can't keep just simple little things. I think that sometimes, you are right, we declare victory and quit and don't understand that there are people pounding down the doors saying, "I can do it better, cheaper, and quicker if you will let me," and I hope that we will focus on that.

Regarding the various bills that are going to be discussed by those testifying after you, H.R. 2826, H.R. 2819, and H.R. 2832, are you preparing responses to them? You made general comments

about increased costs. Are you preparing responses on those pieces of legislation for our committee?

Mr. VOGEL. I just learned of the contents of the testimony offered today. I had a brief discussion with a couple of the veterans' service organization representatives this morning together with Mr. Carey and Mr. Koons. The general notions on the improvement of the insurance program are things that we can look at and we can cost out; if there are any costs. Some of the initiatives are cost neutral in the mutual type insurance programs. We would be very happy to respond to those and to work with the service organizations and this committee on those.

Mr. McEWEN. I appreciate that.

Mr. APPLEGATE. Thank you, Mr. McEwen.

Mr. Sangmeister.

Mr. SANGMEISTER. Thank you, Mr. Chairman.

I always judge the operation of a Department by the amount of complaints that I receive back in the district offices concerning veterans' matters, and I haven't had one yet on insurance. So without any more knowledge than that, I guess everything must be operating quite smoothly.

But while I have a chance to talk to you here about something specific, how many programs do you administer?

Mr. VOGEL. We administer six, and we supervise two. We supervise the programs for the Active and the Reserve Forces, the Uniformed Service programs; the rest we administer in-house.

Mr. SANGMEISTER. There is a bit of personal information I would like to have, because I never followed up to find out why it was that way. After the Korean war, I kept my \$10,000 worth of life insurance and repeatedly receive from your administration reminders that you are on that 5-year increased premium, and every 5 years the premium is going to go up, and up, and up, until it is going to get pretty prohibitive, and you ought to convert the thing.

Many others, I never got around to converting it, but all of a sudden about 5 or 6 years ago, I began getting a computer card, and I must say, that computer card is rather hard to understand. But I don't think I have paid any premium for the last 5 years, because the card always comes through showing some kind of a dividend or a benefit that is covering my premium, and I really don't understand that because the original policy that I had, as I understand it, was a straight term policy with the premium increasing every 5 years.

Have you got any explanation for that, as to why that would be?

Mr. VOGEL. No. You know you have got a term policy, you described it that way, but I thought as you talked that it must be a permanent, maybe 20 paid life, but clearly it is term. We will check into it. Probably before the day is out we can get back to you or your staff.

Mr. SANGMEISTER. I hate to put you through that, but I am rather curious, if somebody would explain that to me, because I had a little trouble following the credits that were on that card, and I never did anything to convert that policy from the day that I left the service.

Can you punch it up under my name, or do you need a policy number?

Mr. VOGEL. Yes, sir. The name might do, a Social Security number, or insurance—we can call you.

Mr. SANGMEISTER. No rush on that. Whenever you get around to doing it.

Mr. VOGEL. We would be happy to, sir.

Mr. SANGMEISTER. That's all I have. Thank you.

Mr. APPLGATE. Thank you, George.

Mr. Parker.

Mr. PARKER. Thank you, Mr. Chairman.

John, we are glad to have you here, and you are doing a good job in a lot of different areas. I really like your bank-draft system, the VA MATIC. Everybody knows in private industry that insurance premiums are easy to let lapse unless they are automatically withdrawn from a checking account or automatically from money that is available. It is a situation where I think that should be encouraged.

One of the problems about service people when they get out of the military is, a lot of them are young, and they don't think they are going to grow old, and they don't think they are going to die. It is very hard to explain to them that there is going to come a time when they are going to need that coverage. So I think you are doing a good job from that standpoint. I think it needs to be encouraged.

The 1-day turnaround on most of the claims on the *U.S.S. Iowa*—private industry needs to take a lesson from that, because that is a phenomenal turnaround period.

One thing I want to bring up. My friend from Ohio, Mr. McEwen, made mention that the Members here on Capitol Hill don't do that when it comes to computers. We have got Members that still don't have computers, they have still got typewriters, which is a phenomenal thing to me. It has concerned me a great deal that we have computer systems that don't communicate with each other.

Have you discussed with the insurance industry at all some of the programs that they have that you would be able to pull in?

Mr. VOGEL. We have, mostly with individuals who provide those services. A lot of insurance companies buy off-the-shelf. Our remittance processing system, where we process premiums, is pretty much state-of-the-art comparable to that which you would find if you went to the Travelers' or other major insurance companies.

I would like to ask Mr. Koons to respond to some specifics with respect to commercial insurance ADP efforts.

Mr. KOONS. We did go out in the Commerce Business Daily with a request for information from any companies that were going to offer an off-the-shelf type of procurement, and there were only three that responded to that. As Mr. Vogel mentioned, they came in, looked at our system, and they did not feel that they could really provide the full range of services that we were providing at the time. So that proved unsuccessful.

Some of the programs we have installed are off the shelf. For example, we have a package the actuaries use which is pretty standard in the industry. We were able to procure that from a vendor.

Also, we have a financial package, a general ledger type system, which also came from a vendor.

That is about the extent of our success, though. We did look.

Mr. PARKER. One of the reasons I think that it is so important is because you have a data base that would be the envy of any company out there. They would love to have those policyholders. Those individuals that you have are a ready source of income for your entire agency just simply from the standpoint of being able to provide some policies that they need and they would want to have and that you could provide them.

I think it is very important that you put a tremendous amount of emphasis on modernizing your computer system. It just seems to me that we are going kind of slow about it. I know it is the bureaucracy of the whole thing which causes that, but, at the same time, we can provide some services that are desperately needed in a very cost-efficient way if we have got the computers, because we have got very small companies with much, much smaller data bases than you have out there that are providing phenomenal policies for people, policies where people are paying in a premium and getting a great return off it and having the protection they need, and we see that on a day-to-day basis.

Our veterans, whenever they get older, a lot of them have had insurance in the past, but they have let it lapse, they haven't kept it up, and they wind up depending on the Veterans' Administration to take care of everything for a lot of them, and that is a sad situation, because it shouldn't be like that. We should be able to provide something to our veterans so that, when all is said and done and when the money has been paid in for all those years, they have got something to show for it, and whenever they get old, whenever they get ill, whenever they get into a situation where their outside income is limited, they will have something to turn to, and we have that potential. I think we have a responsibility for that, but it all depends on the computer. That computer will be the key to it. If we don't have it, it won't be provided.

I think you are doing a good job in many areas, but I think we can improve also.

Thank you very much, Mr. Vogel. Thank you, Mr. Chairman.

Mr. APPLEGATE. Thank you, Mr. Parker.

Mr. Penny.

Mr. PENNY. Thank you.

Mr. Vogel, do you want to say some kind words about the staff at the St. Paul insurance center?

Mr. VOGEL. I think it goes without saying that both the insurance centers are extraordinarily well staffed.

St. Paul has the particular benefit of having a lot less employee turnover than you get in Philadelphia, which bodes well for both the management and the general climate there—not talking about the temperature in Minnesota, but they do have a stability in that work force which bodes very, very well for them. They don't have near the turnover we have in Philadelphia. Philadelphia's turnover is not great. But I am particularly proud of both those insurance centers. I get an opportunity to visit the St. Paul office in conjunction with one of the national service organization conventions. You can't say enough for the people.

We run our insurance programs, big as they are, with less personnel than they have in the Office of the Inspector General, which says something. We are proud of that.

Mr. PENNY. And what about any current plans within the Department to consolidate insurance programs at one site?

Mr. VOGEL. We have no plans at all, Mr. Penny.

Mr. PENNY. I am glad to hear that.

There are, though, plans to build a new facility in Philadelphia. You don't anticipate that new construction project for the VA and other programs in Philadelphia leading, down the line, to a consolidation of programs in Philadelphia?

Mr. VOGEL. That is a GSA project. We are not part of that.

Mr. PENNY. All right. So you are not directly tied to that project. It is in the Treasury and Postal Service appropriations bill.

Mr. VOGEL. No, sir, we are not.

Mr. PENNY. And, at this point, the VA is not involved in any discussions about utilizing space in that new building?

Mr. CAREY. We are involved in general discussions with GSA, but none of those discussions involves plans for a consolidation of offices.

Mr. PENNY. Okay. I appreciate knowing that.

I am also interested to hear of the success of the toll-free telephone service. Do you keep statistical evidence on the number of veterans west of the Mississippi who are accessing that toll-free line?

Mr. CAREY. Yes, we do. Of all of the calls we receive, the calls from what would be considered the St. Paul jurisdiction, represent about 20, 21, or 22 percent, of total calls received. We are receiving about 2,500 calls a day.

Mr. PENNY. Yes, I saw that. That is remarkable.

You also indicated that there was a quick turnaround, many requests being able to be handled by phone, or by a quick letter after the phone call to confirm the information that the veteran needs.

In the time that it has been operational, have you received feedback from the veteran population indicating their satisfaction with it?

Mr. CAREY. It has been extremely positive feedback that we have received from the organized veterans' service organizations, county service officers, and individual veterans.

Mr. PENNY. And then the staffing levels to support that: I saw in your testimony a suggestion that you might want to expand the hours, but it is all being manned out of the Philadelphia Center.

Mr. CAREY. The operational hours in Philadelphia are the same as one would get out of St. Paul. In other words, we are open until 5:30, which is 4:30 central time. What we are looking at now is putting on a 24-hour recording device whereby an insured could call in in the evening from any place, including the West Coast.

Mr. PENNY. And you could call back in the morning.

You are not thinking of staffing an extra 2 hours to take care of California?

Mr. VOGEL. We are prepared to do so. Most people call during mid-day, and even mid-day on the West Coast is within our hours of operation in Philadelphia. We find that in our telephone units in our veterans' services divisions across the country the bulk of the

calls come in from 10 to 2:30 or so in the business day, frequently in and around lunch time. We are prepared to respond to whatever the insureds' needs are. If we saw a run-up in calls, especially calls that may be blocked and couldn't get in late in the day, we would be happy to——

Mr. PENNY. But if you have an answering service of sorts, it is going to require some additional staff time if you are going to get in the business now of returning calls instead of just receiving calls. I am not saying that is bad, I think that is a good thing for the veterans, but do you feel you have adequate staff time to handle that without taking away from other duties?

Mr. VOGEL. I believe we do. I don't think we will get a lot of volume. If the volume turns out to be something different, we can staff for it.

The other non-governmental operations that have central telephone units for inquiries about credit card purchases and things like that, have an experience that shows most of the calls come in during the middle of the work day, and you are able to take them at night and call them back without increased staffing. Generally there is a trade-off there, Mr. Penny.

Mr. PENNY. Thank you, Mr. Chairman.

Thank you, Mr. Vogel.

Mr. APLEGATE. Mr. Evans.

Mr. EVANS. No questions, Mr. Chairman.

Mr. APLEGATE. No questions.

Thank you very much, Mr. Vogel, Mr. Carey, and Mr. Koons. We appreciate, again, your coming before the committee, and congratulations on your award, and keep the smooth operations moving.

Mr. VOGEL. Thank you very much, Mr. Chairman.

Mr. APLEGATE. The next panel we have is: Cmdr. John Wana-maker, deputy director of legislative affairs, the Retired Officers Association; Mr. Paul Breuer, associate national legislative director, DAV; Mr. Robert Manhan, special assistant, National Legislative Service, Veterans of Foreign Wars; and Col. Herb Rosenbleeth, national legislative director, Jewish War Veterans.

Gentlemen, it is good to have you here, and let me just say before we move on, and I guess it isn't official, but I was informed a while ago of the forthcoming retirement of Commander Wana-maker as the deputy director of legislative affairs with the Retired Officers Association.

John, I guess you came here about the time I did, in that capacity at least, about 12 years ago, and we have certainly enjoyed your forthrightness. You have always been one never to hold back on the way that you really felt. In other words, you said it like it was. You have been very valuable coming before the committee, and, speaking on behalf of not only myself but also of the committee, I would say that we wish you well in whatever your future endeavors may be.

STATEMENTS OF CMDR. JOHN F. WANAMAKER, USN, (RET.), DEPUTY DIRECTOR OF LEGISLATIVE AFFAIRS, THE RETIRED OFFICERS ASSOCIATION; PAUL J. BREUER, ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS; ROBERT MANHAN, SPECIAL ASSISTANT, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS; AND COL. HERB ROSENBLEETH, U.S.A., (RET.), NATIONAL LEGISLATIVE DIRECTOR, JEWISH WAR VETERANS

STATEMENT OF CMDR. JOHN F. WANAMAKER

Commander WANAMAKER. Thank you, Mr. Chairman, for those kind remarks.

We welcome this opportunity to provide the views of our membership on the various insurance programs administered by the Department of Veterans Affairs. All of our members are either now or were eligible participants in one or more of those programs during their service careers and are well aware of the program benefits as well as of their shortfalls.

We believe it is especially important that this committee hold these hearings at this time. I am sure the committee is aware that the Committee on Armed Services included a section, section 625, in the Department of Defense authorization bill, to review the adequacies of the current insurance program covered under the Servicemen's Group Life Insurance and the practicality of providing an accidental death insurance plan for aviators and other air crew members. This report will be due no later than February 15, 1990, along with DOD's recommendations.

Although we welcome the information requested in this report, we believe that this committee should require that report be expanded to include the adequacies of the SGLI program for all participants, not only for aviators and crew members. Remember that doctors and lawyers as well as others land aboard aircraft carriers at night in the back seat of logistics support aircraft, and they can be killed too.

My point, Mr. Chairman, is that although a review of all aspects of the SGLI program is appropriate, the review should be done by this committee in the exercise of its oversight responsibilities, and I believe these hearings today should be a good start in that process, and the committee is to be commended for taking this initiative.

DETERMINATION OF INSURANCE REQUIREMENTS

A single service member entering the military at age 17 or 18 has considerably different insurance requirements than a career serviceman with 15 or 20 years of service who has family responsibilities. We do not believe that the current \$50,000 maximum coverage available through the Servicemen's Group Life Insurance Program meets the needs of all service members whose annual basic pay ranges between \$7,800 and \$72,000. The \$50,000 maximum coverage may not be appropriate in either of these extreme cases.

As a comparison, the range of insurance coverage available to civilian civil service employees under the Federal Group Life Insurance Program is over \$76,000 coverage for the most junior GS-1

employee to over \$450,000 for the more senior executives. The Federal civilian employee can tailor his insurance needs to his requirements. The military service members do not have this flexibility, and it is strongly recommended that such increased coverage and flexibility be provided to the SGLI program.

I might add, the Federal civilian coverage is partially subsidized by the Government. The only subsidy provided for the military are costs associated with wartime risks. The wartime risk feature has not been a cost to the Government since 1975 and works particularly to protect the insurance companies.

The Federal Employees Group Life Insurance Program also incorporated features such as accidental death and dismemberment benefits as well as a program to extend limited coverage for an employee's spouse and dependent children. Another important and significant feature of the Federal Group Life Insurance is providing an employee an opportunity to carry a portion of his insurance coverage over into retirement.

These features should be considered for inclusion in a life insurance program for military service members. I would suggest that this committee require the Department of Defense and the Department of Veterans Affairs to jointly review the SGLI program with recommendations to make the program not less beneficial than that provided for civilian employees.

Mr. Chairman, the various insurance programs administered by the Department of Veterans Affairs which provided protection for military service members has historically been structured to provide protection for non-career service members whose civilian lives are interrupted to serve our Nation in time of war or national emergency. In most cases, a term insurance program such as the USGLI and the National Service Life Insurance Programs met the limited insurance needs for the majority during those periods of World War I and World War II. These maturing programs were and continue to be administered by the Veterans' Administration and should be considered an overwhelming success.

When the current Servicemen's Group Life Insurance and the Veterans' Group Life Insurance Programs were established, it was the expressed intent to get the Government out of the insurance business. By contracting out the total SGLI and VGLI program to the civilian sector, it appears that the profit motive has become the paramount consideration rather than providing the insurance needs of the service members of the Government. For all general purposes, the Government still is the insurer of last resort and must protect against wartime risk.

I urge the committee to have the Department of Defense and the Department of Veterans Affairs jointly conduct a study on the feasibility of returning these insurance programs in-house to the administration of the Veterans' Administration.

In summary, it is recommended that the committee study the feasibility of restructuring the SGLI and VGLI programs to meet the needs of current service members and to determine if it would be more cost-effective to administer the revised programs within the Department of Veterans Affairs.

Thank you, Mr. Chairman.

[The prepared statement of Commander Wanamaker appears on p. 47.]

Mr. APPLEGATE. Thank you very much, Commander. We will take those recommendations into consideration.

Mr. Breuer.

STATEMENT OF PAUL J. BREUER

Mr. BREUER. Thank you, Mr. Chairman.

On behalf of the 1.3 million members of the DAV and our Ladies' Auxiliary, it is a pleasure to be here, and we appreciate the opportunity to present our views on the Department of Veterans Affairs insurance programs.

I would like to take this opportunity, Mr. Chairman, to compliment the VA and the directors of the St. Paul, MN, and Philadelphia, PA, insurance centers for the very effective way in which they administer VA insurance programs.

DAV service officers nationwide seldom hear complaints from the veterans' community about insurance-related claims, and we feel it is important to commend the Department and the insurance centers for a job very well done.

Membership in the DAV, Mr. Chairman, as I am sure you are aware, is limited to wartime service-connected disabled veterans, and I would like to focus my comments this morning on two VA insurance programs directly affecting service-connected disabled veterans, and those programs are RH Life Insurance and Veterans' Mortgage Life Insurance, and four DAV resolutions seeking enhancement of these two programs.

RH life insurance, as you are aware, I am sure, is limited to service-connected disabled veterans discharged on or after April 25, 1951, who apply within 1 year of establishing a service-connected disability. The program provides up to \$10,000 maximum life insurance coverage.

Our membership has adopted three resolutions seeking, one, an increase from \$10,000 to \$20,000 the face value of RH life insurance; two, an extension from 1 year to 2 years for the time limit to apply for RH life insurance; and, three, legislation that would authorize an open enrollment period, a one-time period, for eligible service-connected disabled veterans to apply for RH life insurance.

In the context of these resolutions, Mr. Chairman, we thought it useful to briefly examine the evolution of the RH Life Insurance Program. Congress examined the Government life insurance program in view of the low participation rate of Korean war active duty service members in the 1950-1951 era. Congress saw merit at that time in establishing mandatory \$10,000 life insurance coverage for all active duty Armed Forces personnel and identical \$10,000 coverage on a voluntary basis for veterans whose insurability was impaired by a service-connected disability.

Through the years, life insurance available to active duty Armed Forces personnel has quite properly grown to \$50,000 maximum coverage while RH life insurance has remained at \$10,000. Unfortunately, Mr. Chairman, for many service-connected disabled veterans, RH life insurance is the only life insurance affordable to them by virtue of their service-connected disability, and with families of

their own, \$10,000 life insurance in our view, is simply inadequate to meet their insurance needs. They are under-insured by several standards, including the fact that in 1984 all insured American married men averaged \$58,000 in personal life insurance coverage and by private life insurance industry standards that define proper insurance coverage as gross wages multiplied by a factor of 5.

Mr. Chairman, at DAV request, Chairman Montgomery introduced H.R. 2826 during the 101st Congress that would increase RH life insurance maximum face value coverage from \$10,000 to \$20,000. We respectfully urge the subcommittee to favorably consider H.R. 2826 in order to offer service-connected disabled veterans an opportunity to obtain more equitable life insurance coverage.

Current law, Mr. Chairman, requires that all eligible veterans apply for RH life insurance within 1 year from establishing service connection for a disability. For a variety of reasons outlined in my prepared testimony, many disabled veterans have not and do not apply for RH life insurance within the 1-year time period. Statistically, over 1 million service-connected veterans are currently eligible for RH life insurance, yet only some 304,000 have active policies in force.

In view of these factors, Mr. Chairman, DAV would like to see an extension from 1 to 2 years following the establishment of a service-connected disability the period during which a veteran may apply for RH life insurance coverage. At DAV's request, Chairman Montgomery introduced H.R. 2819, a measure that would accomplish this objective. We again urge the subcommittee to favorably consider H.R. 2819 in an effort to ensure that young, service-connected disabled veterans take the opportunity to obtain RH life insurance coverage.

DAV membership also adopted a resolution seeking a one-time open enrollment period or "open window," if you will, for the purchase of RH life insurance by veterans who have not yet taken advantage of this program. We seek subcommittee support of legislation that would accomplish this objective as well.

Finally, Mr. Chairman, with respect to the Veterans Mortgage Life Insurance Program, \$40,000 mortgage life insurance protection is available to those service-connected disabled veterans with sufficient levels of special monthly compensation so as to qualify for the specially adapted housing grant. However, there exists many 100 percent service-connected permanently and totally disabled veterans who, as a result of their service-connected disabilities, are unable to purchase mortgage insurance protection from commercial insurers at any cost.

Our membership adopted a resolution seeking an extension of mortgage insurance protection to all 100 percent permanently and totally disabled service-connected veterans, and, Mr. Chairman, at DAV request, Congressman Montgomery introduced H.R. 2032 to accomplish this objective. Again, we seek your support, respectfully, of this legislation.

That concludes my comments, Mr. Chairman, and I would be pleased to respond to your questions.

[The prepared statement of Mr. Breuer appears on p. 53.]

Mr. APPLEGATE. Gentlemen, as you know, the bells have rung for a vote. Your full statements will be placed in the record, without objection.

Mr. Manhan and Colonel Rosenbleeth, if you could summarize in about 2 or 3 minutes, we would appreciate that, and we can complete this hearing with having to recess. If you cannot—which is perfectly all right, and I'll leave it to your choice—we will go ahead and just recess right now and go over and vote and then come back.

Colonel ROSENBLEETH. We can do it in 1 minute.

Mr. APPLEGATE. Okay. Proceed.

Mr. Manhan.

STATEMENT OF ROBERT MANHAN

Mr. MANHAN. Thank you very much, Mr. Chairman. The VFW, as always, appreciates the opportunity to appear before your subcommittee.

Our submitted statement is already a matter of record. To summarize some of our high points, we very much support the position that has already been espoused by Commander Wanamaker from the Retired Officers Association regarding the equity in the benefits of the two group life insurance policies that are monitored by the Veterans' Administration. We have also gone on record in supporting some new legislation that may impact favorably on some VA-administered insurance programs. Specifically, we support H.R. 2826, H.R. 2819, and your own H.R. 2546.

This summarizes our position, Mr. Chairman. Thank you very much.

[The prepared statement of Mr. Manhan appears on p. 65.]

Mr. APPLEGATE. Thank you, and thank you for your support. Colonel.

STATEMENT OF COL. HERB ROSENBLEETH

Colonel ROSENBLEETH. Mr. Chairman and members of the subcommittee, I thank you for the opportunity to appear today to testify before you.

The Jewish War Veterans would like to commend the Veterans' Administration, and particularly Mr. Carey and Mr. Koons, for the award that they received, a well deserved award from our observations.

Like Mr. Sangmeister, I also have not received, I don't think, a single complaint on the insurance program, and that is not because our members don't know how to express themselves. So I think that that speaks very highly of the program.

In my statement, I did commend the Veterans' Administration for a number of management improvements which have been covered previously, and we also cited two specific suggestions. They were both covered by DAV on the SDVI and the mortgage insurance. I support that position along with what is in my statement.

Also, Mr. Applegate, I would like to commend you for H.R. 2546, which was introduced on June 6, which would raise the amount of the mortgage insurance to \$90,000. I appreciate that that occurred. And I thank you for the opportunity to appear today.

[The prepared statement of Colonel Rosenbleeth appears on p. 73.]

Mr. APPLEGATE. Good. Thank you very much. I appreciate your cooperation in this. None of the panel members have stated that they had any questions at this time, but if they do we will send them in writing to you.

Again, thank you very much for appearing before the committee.

Just a note for the record. The following will be submitting testimony for the record: the American Legion, the NCOA, and the PVA.

[Whereupon, at 10:10 a.m., the subcommittee was adjourned.]

APPENDIX

Statement of

R. J. VOGEL

Chief Benefits Director

before the

Subcommittee on
Compensation, Pension and Insurance

House Committee on Veterans Affairs

July 19, 1989

Mr. Chairman and Members of the Subcommittee:

We are pleased to have this opportunity to address the subcommittee in order to provide you with a report of the current position of the Government Life Insurance programs that are administered or supervised by the Department of Veterans Affairs. In addition to discussing the present financial condition of the eight programs, we will focus our testimony, as you requested, on several program changes and administrative actions that we have taken since last year's oversight hearing to improve the financial benefits and services that these programs offer.

The insurance programs administered and supervised by the Department of Veterans Affairs provide over \$214 billion in insurance protection to 7.1 million veterans and members of the uniformed services. When compared with commercial insurance companies nationwide, the Government life insurance programs would now rank eighth in terms of coverage in force. (Exhibit A)

First, I will discuss the financial status of the administered programs. Sufficient reserves have been set aside for the United States Government Life Insurance (USGLI), National Service Life Insurance (NSLI), Veterans Special Life Insurance (VSLI), and Veterans Reopened Insurance (VRI) programs to ensure that the programs' future liabilities will be met without the need for appropriated funds. The only exceptions are the extra-hazard payments for the USGLI and NSLI programs which are, by law, paid for by the Government. Extra-hazard payments are authorized for any death or disability claim where death or disability is directly attributable to an injury or disease which resulted from the extra hazards of military or naval service. These payments amounted to \$1.8 million in 1988, less than 1/10 of 1 percent of the programs' income. All of these programs (USGLI, NSLI, VSLI and VRI) are in sound financial positions and are reviewed on an annual basis by a group of eminent actuaries from the commercial insurance industry.

We have provided a summary report (Exhibit B) on the amount of funds invested in U.S. Government Securities and loaned to policyholders, together with the average rate of return on these investments for each of the trust funds as of December 31, 1988. Exhibit C shows the percentage of trust funds invested in U.S. Treasury Securities and the percentage that has been lent to policyholders. Exhibit D provides a comparison of the average rate of return on the NSLI trust fund investments and the rate of return on the aggregate investments of all commercial life insurance companies in the United States.

The two Government Life Insurance programs which, by design, are not self-supporting, are the Service-Disabled Veterans Insurance (SDVI) and Veterans Mortgage Life Insurance (VMLI) programs. Both of these programs insure the lives of disabled veterans at the same premium rates paid by veterans without medical problems who, generally, have lower death rates. These programs, as a result, continue to require annual subsidies from appropriated funds. Since the premium income is not sufficient to cover all of the programs' expenses, the excess cost of SDVI and VMLI claims are covered by a transfer of funds from the Veterans Insurance and Indemnities (VI&I) appropriation.

During Fiscal Year 1988, \$10,166,000 was transferred from the VI&I account to the SDVI program. The total Government subsidy since the inception of the program has been \$126,067,677. Consequently, unlike the other programs, there are no reserves to fund the future liabilities of the SDVI program. Our actuarial staff estimates that if all the current SDVI policies are carried to their maturity, there is an unfunded liability which on a statutory accounting basis would amount to \$370 million.

In the Veterans Mortgage Life Insurance program, a subsidy of \$6.8 million was required in calendar year 1988. Since the inception of the program, \$55.5 million in appropriated funds have been required to subsidize this program for seriously disabled veterans. Approximately \$3 in appropriated funds are required for every \$1 in premium income to cover the costs of the VMLI program which currently insures approximately 5,300 veterans who were entitled to a specially adapted housing grant.

Exhibits E-1 through E-6 provide a statistical profile for each of the administered programs as of the end of calendar year 1988. The profiles include the number insured by each program, the average face amount of each policy as well as the total coverage provided, annual death rates and other information.

Our total disbursements including policy loans for the USGLI, NSLI, VSLI, VRI and SDVI programs this year are projected to be approximately \$1.9 billion. Of this total, over \$1 billion will be paid in dividends to 2,938,098 policyholders with participating policies.

When we revised our regulations in 1987 to provide for a variable loan interest rate, an immediate result was the reduction of the then current rate of eleven percent to eight percent. The variable interest rate is based on the June interest rate on U.S. Treasury Securities, 10-year constant maturities, rounded down to the next whole number. This indicator is reviewed once annually, and if there has been a change from the previous year, a corresponding adjustment is made in the loan interest rate.

The rate of interest on these Treasury Securities as of June 30, 1989, was 8.28 percent. The insurance loan interest rate will remain at 8 percent, therefore, at least through September, 1990.

The insurance programs supervised by the Veterans Administration are the Servicemen's Group Life Insurance (SGLI) and Veterans Group Life Insurance (VGLI) programs. Exhibits F-1 through F-3 provide detailed statistical profiles of the SGLI and VGLI programs.

The SGLI program currently provides full-time insurance protection to approximately 3,527,000 members of the uniformed services, the ready reserves and the retired reserves representing a total face amount of coverage of \$175 billion. The insureds are covered by a group policy purchased by VA from the Prudential Insurance Company of America. Prudential administers the program from the Office of Servicemen's Group Life Insurance (OSGLI) which is located in Newark, N.J.

The premiums collected under the SGLI programs have been sufficient to cover the entire cost of the programs, including all VA and OSGLI administrative costs. The only exception is those costs that are attributable to the extra mortality due to the hazards of military service. By law, the military services are required to pay these extra hazard costs from their appropriations for active duty pay. No extra hazard payments, however, have been required from the uniformed services since 1975. In fact, the SGLI program has been entirely self-supporting in all respects since then.

Through a number of cash management initiatives that resulted in increased interest earnings of \$3/4 of a million, as well as legislation supported by this subcommittee which exempted the SGLI program from over \$4 million in state premium taxes, we have been able to take advantage of the excellent financial condition of the program to a point where we will be able to maintain the low monthly rate of 8¢ per \$1,000 of coverage for at least the next five years.

The second program supervised by VA is the Veterans' Group Life Insurance (VGLI) program. VGLI is a program of post-separation insurance which provides for the conversion of SGLI to a five-year nonrenewable term policy. We currently insure 281,185 veterans and members of the Individual Ready Reserve and Inactive National Guard for \$12.2 billion in insurance coverage.

During fiscal year 1988, the total administrative cost attributable to the insurance programs was \$28,510,000. Of this amount, \$306,000 was reimbursed from the SGLI fund for supervision of the SGLI and VGLI programs. A total of \$1,304,000 was reimbursed from the VRI fund as required by law for administration of the VRI program. The net cost borne by the Government was, therefore, \$26,900,000.

In managing both the administered and supervised programs, our primary goals are to improve service and maximize the benefits available to pay to Government Life Insurance policyholders and beneficiaries. I would like to discuss briefly some of our most recent initiatives intended to achieve these goals.

One of our most recent and most significant initiatives was the Secretary's decision to increase by an average of 10 percent the amount of paid-up additional insurance that can be purchased with insurance dividends. This will result in over \$470 million of additional insurance protection being added automatically to existing paid-up additions at the end of this year. In addition, policyholders will now be able to purchase approximately 10 percent more paid-up insurance with the same amount of dividend dollars. We undertook a similar initiative in 1987, when paid-up additions were increased by 15 percent.

This particular initiative provides our older insureds an opportunity to increase their insurance coverage automatically, without regard to health and premium considerations. For example, a 65 year old insured earning a dividend of \$350 will now be able to purchase about \$693 of additional paid-up insurance coverage. As of the end of 1988, there was a total of \$4.1 billion in paid-up additional coverage in force. Due to the excellent financial condition of our respective insurance programs, we were able to modify the interest and mortality assumptions used in these programs. This allowed us, in turn, to increase the coverage amount with no corresponding cost passed on to insured veterans.

In 1989, we amended our regulations to eliminate the use of gender-differentiated mortality tables for determining annuity payments in our administered Insurance programs. The immediate effect of this change will be to increase the amounts of monthly payments being received by female annuitants to match those of their male counterparts.

As we did previously in the NSLI program in 1985, we undertook a major step in 1988 to reduce premium costs for older term policyholders. We amended our regulations to provide for the capping of term insurance premiums at the age 70 rate in the Veterans Special Life Insurance (VSLI) program. The VSLI program provides insurance coverage for veterans discharged from service during the Korean war era. We expect this regulation to be of great benefit to many of these individuals in the coming years.

During the last Insurance oversight testimony before this subcommittee, I discussed pending legislation that we proposed to implement two program enhancements. This legislation, supported by the subcommittee, was enacted in October, 1988, (Public Law 100-687) and allowed us to go forward with these enhancements.

First, Public Law 100-687 granted authority to the Secretary of Veterans Affairs to pay interest on settlements from the date of death or date of maturity for endowment policies to the date of payment to the beneficiary or policyholder. We are now in the process of implementing the automatic data processing programming that will be required to effectuate these changes.

The second program enhancement provided for by Public Law 100-687 authorizes an increase in the discount for paying premiums in advance for the various Government life insurance programs. We will initially increase the discount rate to 7 1/2 percent.

In addition to these program enhancements, we have taken several actions to improve the delivery of our Insurance services and benefits. I would like to briefly discuss some of these actions.

The introduction of nationwide toll-free telephone service for policyholders and beneficiaries has proven to be extremely successful. We have received an overwhelming response since the installation of the service in April, 1988. Through the end of June, 1989, over 700,000 calls have been answered. There was a daily average of about 2,500 calls during June.

The telephone service takes advantage of both modern telecommunications and the technology of our redesigned insurance data processing system that provides our Insurance Specialists with immediate access to insurance records. We have been able to cut the average response time down from an average of 11 days for written inquiries to a matter of minutes for most of our phone inquiries. Most callers are able to obtain information instantly and have specific account maintenance actions completed immediately. The remaining cases have required either a call back, a letter of confirmation, or some ADP input actions to adjust an account.

We intend to build on the initial success of the insurance toll-free service initiative and will be testing an after hours messaging system that will, in effect, expand our hours of operation.

We have also completed a series of initiatives directed toward offering our policyholders a wider range of premium payment options and reducing the number of remittances that require processing.

In January of 1989 we completed a mailing to advise the 1.4 million policyholders who were paying their premiums directly of a new premium payment option. This new option is called the "VA MATIC" premium option, which is technically referred to in the banking industry as a pre-authorized debit payment. Under this type of payment system, policyholders may elect to have their premiums automatically deducted from their checking accounts each month through a wire transfer between their financial institution and the Federal Reserve Bank, where we deposit all of our premium payments. About 116,000 of our policyholders have decided to utilize VA MATIC.

In addition to VA MATIC, we conducted mailings to encourage insured veterans to pay their premiums by having them automatically deducted from other VA benefit payments, or to pay premiums quarterly, semi-annually or annually, rather than monthly. We estimate that between these three initiatives, our annual remittance processing workload will be reduced by approximately 2.2 million remittances each year, an annual savings of over \$350,000. This also translates to savings for our policyholders of over \$547,000 in postage alone.

The redesign and modernization of the Automatic Data Processing (ADP) system which supports the Insurance program is ongoing. The main focus of this effort remains the ongoing development of on-line data entry functions. Thus far, we have developed and installed eight data entry functions, which represent 20 percent of the functions that we intend to have in place when the redesign effort is completed.

I would like to discuss our efforts to increase participation in the Veterans' Group Life Insurance (VGLI) program. Over the past several years, VA and the OSGLI have developed several initiatives that have increased the participation rate significantly.

One of our current initiatives involves a new procedure which allows servicepersons to apply for VGLI coverage at the time of separation, rather than waiting for an application to be mailed to them. The test program, which was conducted at the Fort Dix Separation Center, resulted in a participation rate of approximately 55 percent, which is well above the current VGLI overall participation rate of 30 percent. Individuals who elect to pay a year's premium in advance receive the first year of coverage at a discounted rate. This procedure was implemented nationwide at major Army separation centers during the month of September, 1988. A similar program is now underway at several Air Force bases and implementation for the other services is also planned.

We have also developed additional premium payment options which will provide convenient payment alternatives to those insured under the VGLI program and which will at the same time reduce the program's operating expenses. Retirees from all branches of the service can now have their VGLI premiums automatically deducted from their service retirement pay. This option virtually eliminates the possibility of a policy lapsing for nonpayment of premiums. A similar option which allows insureds to deduct their VGLI premiums from VA compensation or pension payments was implemented in April, 1989.

Another payment option that has been available since March 1, 1988, allows VGLI policyholders to pay premiums on an annual basis. If an insured selects the annual mode of payment, a one-month discount is provided.

In closing, I would like to comment on the actions we took as a result of several tragic accidents experienced by our armed forces which resulted in fatalities. Most notably, the explosion on the U.S.S. Iowa on April 19, 1989, took the lives of 47 crew members. Fortunately, all of these individuals were covered by SGLI. Through cooperative efforts among the Department of Veterans Affairs, the Department of the Navy and the Office of Servicemen's Group Life Insurance, the payment of the Iowa claims was expedited. All of the Iowa claims, except for a few claims contested among potential beneficiaries, were paid within 1 day of receipt. We believe that one of our most important functions is to speed delivery of VA benefits at times like these.

Mr. Chairman, this concludes my prepared remarks on the status of the VA's insurance programs. We will be pleased to answer any questions you may have and provide any additional information that you may require on any of these programs.

VA ADMINISTERED INSURANCE PROGRAMS

FACE AMOUNT OF COVERAGE VA VERSUS COMMERCIAL INSURERS	EXHIBIT A
INVESTMENT FORMULA INVESTMENTS PER PROGRAM	EXHIBIT B
TRUST FUND INVESTMENTS	EXHIBIT C
YIELD ON INVESTMENTS	EXHIBIT D

INDIVIDUAL PROGRAM SUMMARIES VA-ADMINISTERED INSURANCE PROGRAMS

UNITED STATES GOVERNMENT LIFE INSURANCE	EXHIBIT E-1
NATIONAL SERVICE LIFE INSURANCE	EXHIBIT E-2
VETERANS SPECIAL LIFE INSURANCE	EXHIBIT E-3
SERVICE-DISABLED VETERANS INSURANCE	EXHIBIT E-4
VETERANS REOPENED INSURANCE	EXHIBIT E-5
VETERANS MORTGAGE LIFE INSURANCE	EXHIBIT E-6

INDIVIDUAL PROGRAM SUMMARIES VA-SUPERVISED GROUP INSURANCE PROGRAMS

SERVICEMENS GROUP LIFE INSURANCE	EXHIBIT F-1
RETIRED RESERVES	EXHIBIT F-2
VETERANS GROUP LIFE INSURANCE	EXHIBIT F-3

FACE AMOUNT OF COVERAGE VA Versus Commercial Insurers (in Billions)

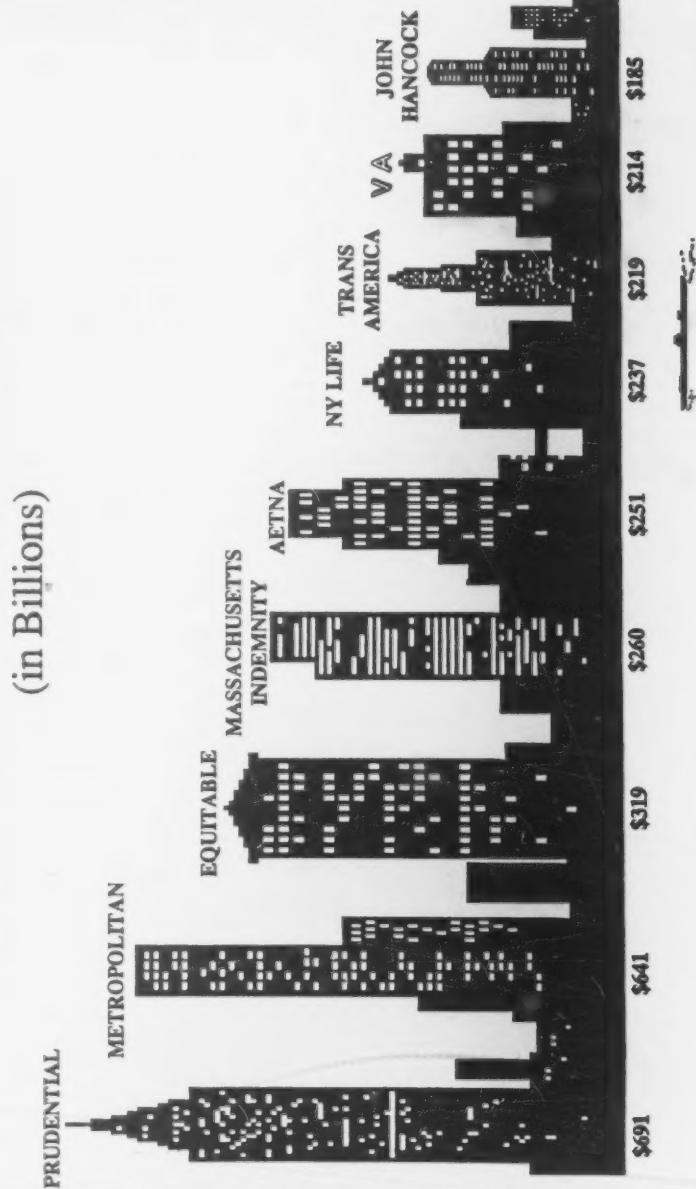


Exhibit A

INSURANCE TRUST FUND INVESTMENTS

December 31, 1988

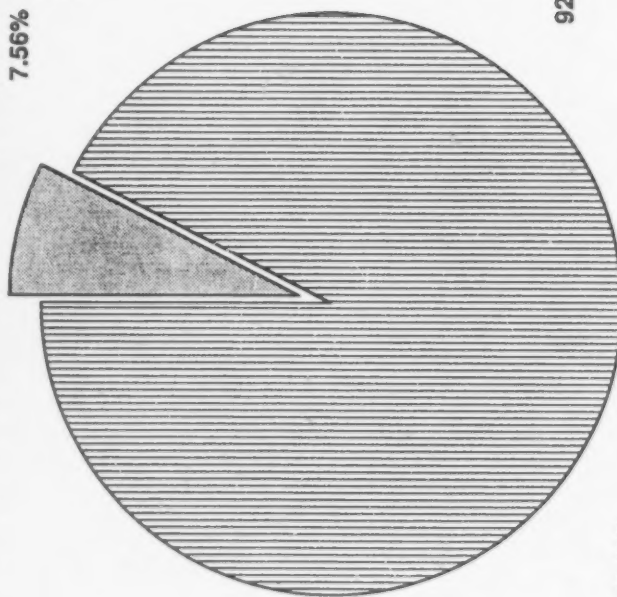
U.S. Government Securities

Fund	MSLI (V)	USGLI (K)	VSLI (RS/W)	VRI (J, JR, JS)
General Authority	38 U.S.C. 720(b)	38 U.S.C. 755(b)	38 U.S.C. 723(c)	38 U.S.C. 725(d)
Formula for Obtaining the Yield on U.S. Security Investments	The average market yield on all marketable interest-bearing obligations of the public debt of the U.S. that are not due or callable until after the expiration of 3 years. (Minus 1% for funds invested prior to January 1, 1985). Calculated as of the end of the preceding month.	The average market yield on all marketable interest-bearing obligations of the public debt of the U.S. that are not due or callable until after the expiration of 3 years. (Minus 1% for funds invested prior to January 1, 1985). Calculated as of the end of the preceding month.	The average rate of interest (coupon rate) borne by all marketable interest-bearing obligations of the U.S., forming a part of the public debt that are not due or callable until after at least 3 years from the date of original issue.	The average market yield on all marketable interest-bearing obligations of the public debt of the U.S. that are not due or callable until after the expiration of 4 years. Calculated as of the end of the preceding month.
Portfolio Arrangement	All new and roll-over investments are spread over periods of 1 to 15 years so that there are equal amounts of maturities each June 30 for all funds except "K." Because of cash flow requirements, the investments being made in the "K" fund are all with maturity dates of the next June 30th.			
Formula Established By	1985 Agreement between the VA and Treasury	1985 Agreement between the VA and Treasury	PL 85-896	PL 88-664
Amount Invested in U.S. Government Securities	\$10,762,273,000	\$198,841,000	\$1,216,796,000	\$503,127,000
Average Rate Of Return on all Investments in U.S. Securities	9.689%	7.629%	9.780%	10.107%
Interest Rate on New Investments in U.S. Securities (Apr., May, June)	9.116%	9.125%	9.877%	9.118%
<u>Policy Loans</u>				
Amount Invested in Policy Loans	\$867,321,100	\$18,160,091	\$72,162,360	\$25,925,010
Percentage of Trust Fund Investments in Policy Loans	7.458%	8.369%	5.599%	4.900%
Average Rate of Return on Policy Loans	4.899%	4.339%	5.744%	5.985%
<u>Total Investments</u>				
Amount	\$11,629,594,100	\$217,001,091	\$1,288,958,360	\$529,052,010
Rate of Return on all Investments (Loans and U.S. Securities)	9.332%	7.354%	9.554%	9.905%

Exhibit B

**Insurance Trust Fund Investments
as of May 31, 1989
U.S. Government Securities**

7.56% Amount Invested in
Policy Loans
\$1,005,057,482



92.44% Amount Invested in
U.S. Government Securities
\$12,293,795,000

TOTAL \$13,298,852,482

Exhibit C

YIELD ON INVESTMENTS

NSLI VS. U.S. COMMERCIAL LIFE INSURANCE COMPANIES

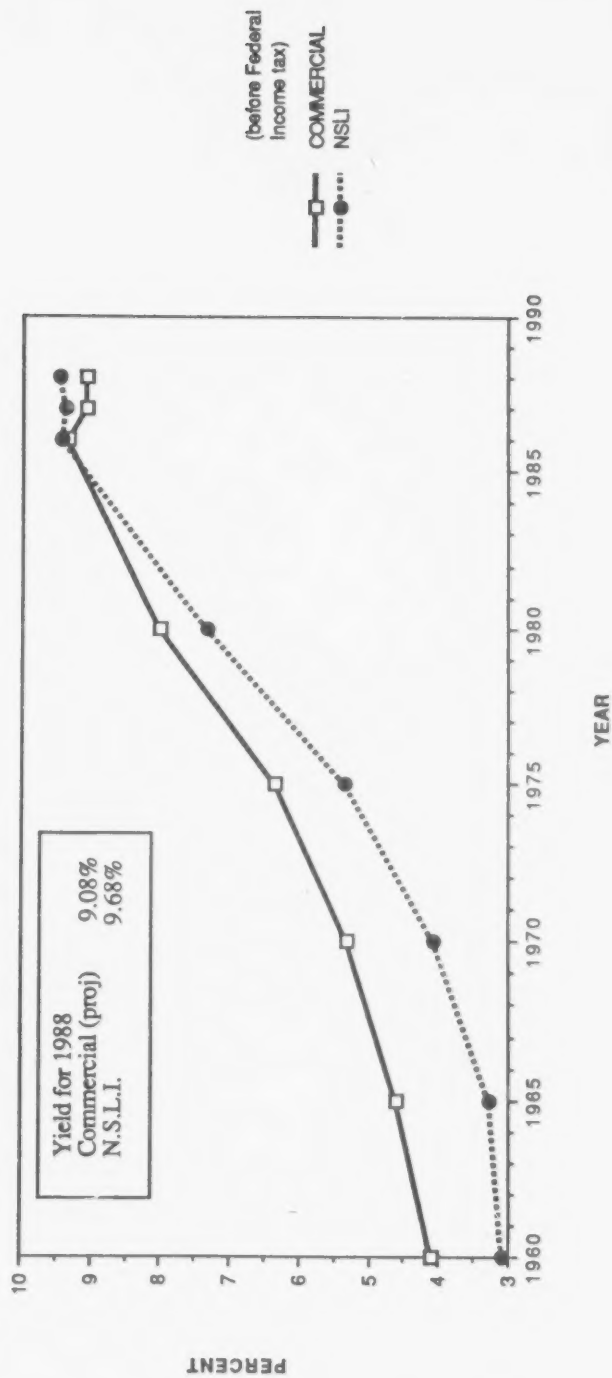


Exhibit D

UNITED STATES GOVERNMENT LIFE INSURANCE
(Policy Numbers Prefixed with "K")

The War Risk Insurance Act of 1917 authorized the issuance of yearly renewable term policies to service personnel in amounts ranging from \$1,000 to \$10,000. These policies were issued from October 6, 1917, until June 7, 1924, when authority for their issuance was rescinded by act of Congress. During that period, approximately 4.4 million policies were issued for a face amount of over \$40 billion of insurance. The final expiration date of any yearly renewable term policy not converted to a permanent plan or a five-year convertible term policy was July 2, 1927, unless the policyholder became disabled prior to that date.

The USGLI program was established in 1919 to handle the direct issuance of new permanent plan policies and conversions from War Risk term insurance. Very few new USGLI policies were actually issued until after June 7, 1924, however, when the issuance of War Risk term policies was terminated. New insurance could only be issued upon entry into the services until May 29, 1928, when the law was amended to permit anyone, in or out of service, who served honorably during World War I, to apply for new insurance at any time. The USGLI program was closed to new issues on October 8, 1940, except for World War I veterans who could apply for such coverage until April 25, 1951.

A total of approximately 1.15 million USGLI policies were issued, of which about 600,000 were in force in 1940 when the program closed to new issues for all but World War I veterans. The amount of insurance in force is currently decreasing at the rate of approximately 9.0% per year (9.5 in 1988). As of December 31, 1988, only 46,636 of the original 1.15 million USGLI policies issued still remain in force.

Program Statistics:

Opening Date	September 29, 1919
Closing Date (Non-World War I Veterans).	October 8, 1940
Closing Date (World War I Veterans).	April 24, 1951
Number of Policies Issued (new issues and conversions	
from War Risk Term Insurance)	1,153,000
Face Value of Policies Issued.	\$4,857,600,000
Average Amount Per Policy Issued	\$4,213
Number of Five-Year Term Policies in Force	311
Number of Permanent Plan Policies in Force	46,325

Face Value of Policies in Force.	\$173,297,480
Average Amount Per Policy in Force	\$3,716
Average Attained Age in 1988	78.8 years
Average Annual Death Rate.	102.7 per 1,000
Total Investments of USGLI Fund.	\$198,841,000
Average Rate of Return on All Investments (As of December 31, 1988)	7.63%
Total Disbursements in 1988.	\$47,345,739

NATIONAL SERVICE LIFE INSURANCE
(Policy Numbers Prefixed with "V," "H," "N" or "AN")

The imminence of large scale military inductions prior to World War II resulted in the enactment of legislation on October 8, 1940, which created a new insurance program known as National Service Life Insurance (NSLI). This legislation also closed the United States Government Life Insurance (USGLI) program to new issues for all but World War I veterans. The NSLI program was established in order to protect the USGLI fund surplus from depletion due to wartime claims and to permit updated total disability and beneficiary selection provisions. Incoming service personnel were eligible to apply for the issuance of five-year, non-renewable term policies in sums ranging from \$1,000 to \$10,000, which were convertible to permanent insurance after one year.

The end of World War II brought several changes similar to those which occurred after World War I. The Insurance Act of 1946 provided the following:

- a. Removal of restrictions on beneficiary selection
- b. Expanded optional settlements, including lump sum
- c. An optional total disability income provision
- d. Additional permanent plans available for conversion from term insurance
- e. Availability of insurance to World War II veterans who were no longer in service
- f. Availability of insurance to World War II veterans lacking coverage due to a service-connected disability less than total in degree

Subsequent legislation provided that permanent plan insurance could be issued without preexisting term coverage and that the term policies in force could be indefinitely renewed. The Insurance Act of 1951 closed both the NSLI and USGLI programs to new issues on April 24, 1951.

Over 22 million policies were issued under the NSLI program, of which 2,802,354 remain in force, for a total amount of \$17,421,444,691 of insurance coverage.

Included in the 2,802,354 total NSLI accounts are 2,632 "H" accounts. This insurance was issued between August 1, 1946, and December 31, 1949, to certain veterans with service-incurred disabilities. This insurance has the same premium rates and policy provisions as "V" insurance except that it is nonparticipating (i.e., the policyholders do not receive dividends).

Program Statistics:

Opening Date	October 8, 1940
Closing Date	April 24, 1951
Number of Policies Issued.	22,177,000
Face Value of Policies Issued.	\$173,765,000,000
Average Amount Per Policy Issued	\$7,835
Number of Five-Year Term Policies in Force	803,759
Number of Permanent Plan Policies in Force	1,995,963
Average Amount Per Policy in Force	\$6,218
Average Attained Age in 1988	65.5 years
Average Annual Death Rate.	23.4 per 1,000
Total Investments of NSLI Fund	\$10,762,273,000
Average Rate of Return on All Investments (As of December 31, 1988)	9.69%
Total Disbursements in 1988.	\$1,645,371,529

VETERANS' SPECIAL LIFE INSURANCE
(Policy Numbers Prefixed with "RS" or "W")

On April 25, 1951, Congress enacted the Servicemen's Indemnity Act and the Insurance Act of 1951 in order to meet the insurance needs of the Korean Conflict.

Insurance under the VSLI program was available, without medical examination, to veterans separated from service on or after April 25, 1951, and before January 1, 1957. Application had to be made within 120 days after separation, and insurance was available in amounts up to \$10,000, less any existing NSLI or USGLI. Approximately 800,000 policies were issued, of which 323,523 remain in force for a total amount of \$2,702,822,446 in insurance coverage.

Program Statistics:

Opening Date	April 25, 1951
Closing Date	December 31, 1956
Number of Policies Issued.	803,111
Face Value of Policies Issued.	\$7,349,178,500
Average Amount Per Policy Issued	\$9,151
Number of Five-Year Level Premium Term Policies	
in Force (RS)	29,794
Number of Five-Year Limited Convertible Term	
Policies in Force (W)	16,911
Number of Permanent Plan Policies in Force	276,818
Face Value of Policies in Force.	\$2,702,822,446
Average Amount Per Policy in Force	\$8,354
Average Attained Age in 1988	56.5 years
Average Annual Death Rate.	8.5 per 1,000
Total Investments of VSLI Fund	\$1,216,796,000
Average Rate of Return on All Investments	
(As of December 31, 1988)	9.78%
Total Disbursements in 1988.	\$137,928,484

SERVICE-DISABLED VETERANS' INSURANCE
(Policy Numbers Prefixed with "RH" or "ARR")

The Insurance Act of 1951 authorized the issuance of new insurance policies ("RH" prefix) to veterans separated from service on or after April 25, 1951, who are suffering from a service-connected disability but who are otherwise insurable. Coverage is available in amounts from \$1,000 to \$10,000 and, in general, must be applied for within one year from the date of the notice to the insured that he or she has been rated disabled by the Veterans Administration. Although information on SDVI is periodically released by our information services, eligible veterans are also notified concerning possible entitlement. This is the only program of Government life insurance which is still open to new issues.

All plans of insurance are available unless the veteran is totally disabled at the time of application, in which case the endowment plans are not available.

Legislation was enacted in 1959 to protect those veterans who become incompetent from service-connected disability while eligible to apply for SDVI, but who die before application was filed. Such veterans are deemed to have applied for \$10,000 of insurance (less any existing Government life insurance), which is issued posthumously, and is payable to a preferred class of the insured's relatives in monthly installments. Since 1959, a total of \$6,602,957 in gratuitous SDVI beneficiary payments have been made.

Since the SDVI program's inception in 1951, 310,865 policies have been issued, for a total of \$2,846,105,437 of insurance coverage. We are currently issuing approximately 3,500 policies per year.

Program Statistics ("RH"):

Opening Date	April 25, 1951
Closing Date	Open
Number of Policies Issued.	304,429
Face Value of Policies Issued.	\$2,786,556,900
Average Amount Per Policy Issued	\$9,153
Number of Five-Year Term Policies in Force	78,835
Number of Permanent Plan Policies in Force	96,687
Face Value of Policies in Force.	\$1,591,633,709
Average Amount Per Policy in Force	\$9,068
Average Attained Age in 1988	46.6 years
Average Annual Death Rate.	14.0 per 1,000
Total Disbursements in 1988.	\$38,989,242
Percentage of Policies on Premium Waiver	23.6%

VETERANS' REOPENED INSURANCE
(Policy Numbers Prefixed with "J," "JR" and "JS")

Program Summary:

In 1964, Congress enacted legislation which provided for a limited reopening of NSLI for a period of one year beginning May 1, 1965, to veterans (not on active duty at date of policy issue) who met the following conditions:

- a. They must have been eligible to obtain NSLI between October 8, 1940, and January 1, 1957, and
- b. They must have had either:
 1. A service-connected disability which was compensable, or would have been compensable if it were rated 10 percent or more in degree, without any serious nonservice-connected disability which would have disqualified them for standard insurance (prefixed with "J" or "JR"), or
 2. A nonservice-connected disability, or combination of service-connected and nonservice-connected disabilities, so serious that they could not obtain commercial insurance at the highest rates (prefixed with "JS").

All plans of insurance available under the NSLI program, except term insurance, are available under the Veterans' Reopened Insurance (VRI) program. Approximately 227,900 policies were issued under this program, of which 126,073 remain in force for a total of \$794,682,795 of coverage.

Program Statistics:

Opening Date	May 1, 1965
Closing Date	May 2, 1966
Number of Policies Issued.	227,882
Face Value of Policies Issued.	\$1,601,504,500
Average Amount Per Policy Issued	\$7,028
Number of Policies in Force.	126,073
Average Amount Per Policy in Force	\$6,303
Face Value of Policies in Force.	\$794,682,795
Average Attained Age in 1988	65.6
Average Annual Death Rate.	24.6 per 1,000
Total Investments of VRI Fund.	\$503,127,000
Average Rate of Return on All Investments (As of	
December 31, 1988).	10.11%
Total Disbursements in 1988.	\$68,859,730

VETERANS' MORTGAGE LIFE INSURANCEProgram Summary:

Veterans' Mortgage Life Insurance (VMLI) is designed to provide financial protection to cover an eligible veteran's outstanding home mortgage in the event of his or her death. The Veterans Administration Regional Office and Insurance Center, Bishop Henry Whipple Federal Building, Fort Snelling, St Paul, MN 55111, administers the mortgage protection program.

The insurance is restricted to those disabled veterans who have received grants for the purchase of specially-adapted housing under the authority of title 38, United States Code, chapter 21. Such grants are available to those veterans who are entitled to compensation for service-connected permanent and total disability due to one or more of the following conditions:

1. Loss, or loss of use, of both legs, which precludes locomotion without the aid of braces, crutches, canes, or a wheelchair; or
2. Blindness in both eyes, having only light perception, plus the loss, or loss of use, of one leg; or
3. Loss, or loss of use, of one leg together with residuals of organic disease or injury which so affect the functions of balance or propulsion as to preclude locomotion without resort to a wheelchair.
4. Loss, or loss of use, of one lower extremity together with the loss, or loss of use, of one upper extremity, which so affect functions of balance or propulsion as to preclude, or render medically inadvisable, locomotion without specific aids.

The grant is for the purpose of acquiring adaptations needed for the eligible veteran's residence because of his or her disabilities.

The grant is conditioned upon residence in a home owned by the veteran or family member.

The maximum amount of VMLI allowed an eligible veteran may not exceed \$40,000 or the total mortgage loan if it is less than \$40,000.

The insurance is not available to veterans who have reached their 70th birthday.

The insurance is payable at the death of the veteran only to the holder of the mortgage loan. No insurance is payable if the mortgage is paid off prior to the veterans death.

A veteran is automatically insured upon receipt of a grant and the securing of a mortgage on the property.

The premiums for this protection are based only on the mortality costs of insuring non-disabled individuals and should, therefore, be lower than any of commercial insurance premiums for similar coverage.

The Government bears the administrative costs of the insurance and all costs for claims in excess of the premiums paid by the insured veteran.

The following statistical information is of interest:

Program Issue Date	August 11, 1965, to present
Number of Members Covered	5,346
Average Face Amount in Force	\$34,482
Total Face Amount in Force	\$184,340,992
Average Annual Death Rate	31.7 per 1,000

SGLI (SERVICEMEN'S GROUP LIFE INSURANCE)
(Active Duty; Ready and Part-Time Reservists; 120-Day Post-Separatees)

STATEMENT OF OPERATIONS
(Accrual Basis)

INCOME	Policy Year 1968	Cumulative From Sept. 29, 1965
SERVICE PERSONNEL PREMIUMS	\$161,134,025	\$2,570,163,116
These are incurred service personnel premiums, all of which are remitted to the primary insurer with the exception of \$296,868 for the PY and \$8,817,600 *cumulative.		
EXTRA HAZARD PAYMENTS	\$ 0	\$ 508,247,406
This is the amount required by law for extra hazard.		
INTEREST EARNED	\$ 30,676,261 ^a	\$ 331,915,458
This is the interest earned on the invested funds, less any interest paid to beneficiaries or credited to the conversion pool fund.		
TOTAL	\$191,810,286	\$3,410,325,980
DISPOSITION OF INCOME		
DEATH CLAIMS	\$182,311,424	\$2,832,304,384
This is the face amount of all death claims incurred, including an estimate for those unreported.		
NET COST OF EXTRA MORTALITY ON CONVERSIONS	\$ -492,307	\$ 23,761,978
This is the amount deposited in or refunded from the conversion pool for substandard conversions.		
EXPENSES OF ADMINISTRATION	\$ 1,534,266	\$ 29,774,887
These are the VA's and the primary insurer's expenses and all reinsurers' expenses and risk charges. VA's expenses were \$128,123 for the PY and \$4,545,299 cumulative.		

* These amounts are VA expenses. The Retired Reserve portions are \$104,628 for the PY and \$1,468,881 cumulative. The VGLI portions are \$63,917 and \$2,803,420.

STATEMENT OF OPERATIONS - CONTINUED

	Policy Year 1988	Cumulative From Sept. 29, 1965
DISPOSITION OF INCOME-Continued		
TAXES AND FEES	\$ 3,637,264	\$ 53,794,789
These are premium taxes, licenses, and fees payable to States.		
DEPOSIT OR ADJUSTMENT TO POST- SEPARATION INSURANCE SUBFUND	\$ 274,883	\$ 3,807,784
This is the amount deposited in or refunded from the subfund for those in the separation period at the end of the PY.		
TRANSFER TO RETIRED RESERVES	\$ 612,555	\$ 56,922,547
TRANSFER TO VGLI	\$ 16,493,276	\$ 160,771,757
PREMIUM STABILIZATION RESERVE. . . .	\$ 8,607,000	\$ 154,619,000
CONTINGENCY RESERVE.	<u>\$-21,168,075</u>	<u>\$ 95,068,859</u>
TOTAL	\$191,810,186	\$3,410,325,980

a. This consists of \$18,036,518 earned by OSGLI and \$12,639,743 earned by the portion in the U.S. Treasury.

b. A total of \$92,276,246 of the Premium Stabilization Reserve was deposited in the years 1982, 1983 and 1984 in the revolving fund established under title 38, United States Code, section 769(d)(1) in the Treasury of the United States, as a return of premium. These funds have been invested by the Secretary of the Treasury in special interest-bearing obligations of the United States.

c. The contingency reserve is held by OSGLI.

RETIRED RESERVES

STATEMENT OF OPERATIONS
(Accrual Basis)

INCOME	Policy Year 1988	Cumulative From May 24, 1974
PREMIUMS	\$ 5,876,655	\$ 60,705,734
These are incurred premiums remitted directly to the primary insurer.		
TRANSFER FROM SGLI	\$ 612,555	\$ 56,922,547
INTEREST EARNED	\$ 0	\$ 0
TOTAL	\$ 6,489,210	\$117,628,281
DISPOSITION OF INCOME		
DEATH CLAIMS	\$ 7,565,889	\$ 81,221,422
This is the face amount of all death claims incurred including an estimate for those unreported.		
EXPENSES OF ADMINISTRATION	\$ 566,411	\$ 6,783,793
These are the VA's and the primary insurer's expenses and all reinsurers' expen- ses and risk charges. VA's expenses were \$104,828 for the PY and \$1,468,881 cum- ulative.		
TAXES AND FEES	\$ 135,108	\$ 1,204,850
These are premium taxes, licenses and fees payable to States.		
TERM TO AGE 60 RESERVE	\$-1,778,198	\$ 28,418,216
CONTINGENCY RESERVE	\$ 0	\$ 0
TOTAL	\$ 6,489,210	\$117,628,281

VGLI (VETERANS' GROUP LIFE INSURANCE)

STATEMENT OF OPERATIONS
(Accrual Basis)

INCOME	Policy Year 1988	Cumulative From Aug. 1, 1974
PREMIUMS These are incurred premiums remitted directly to the primary insurer.	\$25,382,315	\$264,410,830
EXTRA MORTALITY COST This is the amount required to pay service-connected Retro VGLI claims.	\$ 0	\$ 4,798,895
TRANSFER FROM SGLI	\$16,493,276	\$160,271,752
INTEREST EARNED	\$ 0	\$ 0
TOTAL	\$41,875,591	\$429,481,477
DISPOSITION OF INCOME		
DEATH CLAIMS This is the face amount of all death claims incurred, including an estimate for those unreported.	\$31,909,359	\$297,222,307
NET COST OF EXTRA MORTALITY ON CONVERSIONS	\$ -448,723	\$ 22,138,180
EXPENSES OF ADMINISTRATION These are the VA's and the primary insurer's expenses and all reinsurers' expenses and risk charges. VA's expenses were \$ 63,917 for the PY and \$2,803,420 cumulative.	\$ 4,954,842	\$ 61,187,360
TAXES AND FEES These are premium taxes, licenses and fees payable to States.	\$ 633,793	\$ 5,467,769
RESERVE FOR FUTURE COSTS	\$ 4,826,320	\$ 43,465,861

STATEMENT OF OPERATIONS-Continued

	Policy Year 1988	Cumulative From Aug. 1, 1984
DISPOSITION OF INCOME-Continued		
CONTINGENCY RESERVE	\$ 0	\$ 0
TOTAL	\$41,875,591	\$ 429,481,477



201 North Washington Street
Alexandria, Virginia 22314-2529
(703) 549-2311

STATEMENT OF
THE RETIRED OFFICERS ASSOCIATION
before the
HOUSE COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON
COMPENSATION, PENSION AND INSURANCE
Presented by
Commander John F. Wanamaker, USN, Retired
Deputy Director of Legislative Affairs

July 19, 1989

Biography of Commander John F. Wanamaker, USN, Retired
Deputy Director, Legislative Affairs, The Retired Officers
Association.

Commander Wanamaker was born in Brightmore, Michigan in 1925. He entered the Navy in January 1943. During World War II he served in combat with the Second Marine Division at Saipan, Tinian and Okinawa.

Upon discharge from the Navy in 1945, he entered the College of Business Administration at Ohio State University. He re-entered the Navy's Flight Training Program and received his commission as an Ensign and designated a Naval Aviator in 1952. He received a Bachelor of Science Degree from the Naval Post Graduate School, Monterey, California, in 1962.

While attached to various aviation squadrons, he served aboard the aircraft carriers Kearsarge, Bon Homme Richard, Independence and Ticonderoga. He served as the Executive Officer of Aircraft Ferry Squadron Thirty-one, Commanding Officer of Attack Squadron Forty-three and Air Officer of the aircraft carrier Enterprise. During the six years immediately prior to his retirement, he served with the Navy Office of Legislative Affairs, as Congressional Committee Liaison Officer and as Director, Special Projects Division. Commander Wanamaker retired from the Navy in 1977, after completing over 32 years of service.

Among his many decorations and awards are the Silver Star, Bronze Star, Navy Meritorious Medal, Air Medal (17 awards), Navy Commendation Medal, Good Conduct Medal and the Navy Unit Citation. Having flown over 200 combat missions during four tours of duty in Vietnam, he was awarded the Vietnamese Cross of Gallantry and was designated a command pilot in the Vietnamese Air Force.

Commander Wanamaker is married to the former Mary M. Hogan of Salem, Massachusetts. They now live in Fairfax, Virginia.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am Commander John Wanamaker, USN Retired, Deputy of Legislative Affairs for The Retired Officers Association (TROA) which has its national headquarters at 201 North Washington Street, Alexandria, VA. Our association has a membership of more than 362,000 active duty, retired and reserve officers of the seven uniformed services. Included in our membership are approximately 54,000 auxiliary members who are survivors of former members.

We welcome this opportunity to provide the views of our membership on the various insurance programs administered by the Department of Veterans Affairs. All of our members are either now or were eligible participants in one or more of those programs during their service careers and are aware of program benefits as well as their shortfalls. We believe it especially important that this committee hold these hearings at this time. I'm sure the committee is aware that the committee on Armed Services included a section (S-625) in its report accompanying the Defense Authorization bill (H.R. 2461) calling for the Defense Department to review the adequacy of the current insurance coverage of the Servicemen's Group Life Insurance (SGLI) program and the practicality and desirability of providing an accidental death insurance plan for aviation and other crew members. This report would be due no later than February 15, 1990 along with DoD recommendations. Although we would welcome the information requested in this report, we believe that this committee should require that the report be expanded to include the adequacy of the SGLI program for all participants, not only for aviators or crew members. Remember that doctors and lawyers and others also land aboard aircraft carriers in the back seat of logistic support planes, and can be killed too.

My point, Mr. Chairman, is that although review of all aspects of the SGLI program is appropriate, the review should be done by this committee in the exercise of its oversight responsibilities. I believe these hearings today should be a good start in that process and the committee is to be commended for taking this initiative.

DETERMINATION OF INSURANCE REQUIREMENTS

A single servicemember entering the military at 17-18 years of age, has considerably different insurance requirements than a career servicemember with 15-20 years of service and family responsibilities. We do not believe that the current \$50,000 maximum coverage available through the Servicemen's Group Life Insurance (SGLI) Program meets the needs of all servicemembers whose annual basic pay ranges between \$7,800 and \$72,000. The \$50,000 maximum coverage may not be appropriate in either extreme case. As a comparison, the range of insurance coverage available to Civil Service employees under the Federal Employees Group Life Insurance (FEGLI) plan is over \$76,000 coverage for the most junior GS-1 employee to over \$450,000 coverage for the more senior executives. The federal civilian employee can tailor his insurance needs to his requirements. The military servicemembers do not have this flexibility, and it is strongly recommended that such increased coverage and flexibility be provided to the SGLI program. I might add, the federal civilian coverage is partially subsidized by the government. The only subsidy provided the military are costs associated with wartime risks. The wartime risk feature has not been a cost to the government since 1975 and works principally to protect the insurance companies.

The Federal Employees Group Life Insurance plan also incorporates features such as Accidental Death and Dismemberment (AD&D) benefits as well as a program to extend limited coverage for an employee's spouse and dependent children. Another important and significant feature of the FEGLI program is the providing an employee an opportunity to carry a portion of his insurance coverage into retirement.

These features should be considered for inclusion in a life insurance program for military servicemembers. I would suggest that this committee require the Department of Defense and Department of Veterans Affairs to jointly review the SGLI program with recommendations to make the program not less beneficial than that provided its civilian employees.

DETERMINATION OF BEST METHOD OF PROVIDING INSURANCE COVERAGE

Mr. Chairman, the various insurance programs, administered by the Department of Veterans Affairs, which provided protection for military servicemembers has historically been structured to provide protection for non-career servicemembers whose civilian lives were interrupted to serve our nation in time of war or national emergency. In most cases a term insurance program such as the United States Government Life Insurance (USGLI) and the National Service Life Insurance (NSLI) programs met the limited insurance needs of the majority during those periods for WWI and WWII veterans. Those maturing programs were and continue to be administered by the Veterans Administration, and should be considered an overwhelming success.

When the current Servicemember's Group Life Insurance (SGLI) and the Veterans Group Life Insurance (VGLI) programs were established it was the expressed intent to get the government "out-of-the insurance business." By contracting out the total SGLI/VGLI program to the civilian sector it appears that the profit motive has become the paramount consideration rather than providing for the insurance needs of the servicemembers or the government. For all general purposes, the government still is the insurer of last resort and must protect against war-time risks. I urge the committee to have the Department of Defense and the Department of Veterans Affairs jointly conduct a study on the feasibility of returning these insurance programs to the administration of the Veterans Administration. I believe that this could be done with the automatic data processing capability that currently exists within the Veterans Administration and at less cost to both the servicemembers and the government. A cost analysis of in-house vs outside contracting should be provided to the committee for evaluation. In these days of budgetary restraints it's important that the government look for every opportunity to increase program effectiveness.

In summary, it is recommended that the committee study the feasibility of restructuring the SGLI and VGLI programs to meet the needs of current servicemembers and to determine if it would be more cost effective to administer the revised programs within the Department of Veterans Affairs.

This concludes my statement and I will attempt to answer any questions.

Thank you.

STATEMENT OF
PAUL J. BREUER
ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE
OF THE
VETERANS AFFAIRS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
July 19, 1989

MR. CHAIRMAN AND SUBCOMMITTEE MEMBERS:

On behalf of the 1.3 million members of the Disabled American Veterans and our Ladies' Auxiliary, we welcome and appreciate this opportunity to present our views on Department of Veterans Affairs' (VA) insurance programs.

We commend you, Mr. Chairman, for convening this oversight hearing to examine the status of insurance programs administered by the VA, and to solicit our observations and permit our comments on the efficacy of these programs for members of the veterans community.

Mr. Chairman, we are pleased to take this opportunity to publicly acknowledge and compliment the Department of Veterans Affairs for the very effective way in which they manage and administer their insurance programs. The six life insurance programs administered by the VA contain over \$13 billion in cash reserves, providing considerable indemnity protection for our nation's veterans. Information we have received from our Philadelphia, Pennsylvania, and St. Paul, Minnesota National Service Office staffs confirm that insurance inquiries and problems are handled in a very professional, efficient, timely manner with few complaints regarding services rendered.

As you know, Mr. Chairman, the Philadelphia Insurance Center recently set up a toll-free telephone number to respond to insurance related inquiries from veterans and their families. Information we received confirms this program has been an outstanding success.

In these times when severe budgetary constraints have adversely impacted the delivery of some benefits and services to our nation's veterans, we commend the Department of Veterans Affairs and their Insurance Centers for a "job well done" and thank them for their dedicated public service to our nation's veteran community.

Mr. Chairman, the focus of our testimony will be upon two life insurance programs administered by the VA: Service Disabled Veterans Insurance (SDVI), commonly referred to as "RH" Life Insurance, and Veterans Mortgage Life Insurance (VMLI).

Service Disabled Veterans Insurance (SDVI)

RH Life Insurance is designed to provide life insurance protection to service-connected disabled veterans. Any service-connected disabled veteran released from active duty on or after April 25, 1951, under other than dishonorable conditions is eligible for this insurance. RH insurance is issued in incremental amounts from \$1,000 to \$10,000, and the maximum face value of RH Life Insurance is \$10,000.

Veterans Mortgage Life Insurance (VMLI)

Veterans Mortgage Life Insurance provides mortgage protection life insurance to certain severely disabled service-connected veterans who qualify for the Specially Adapted Housing Grant. These veterans are automatically entitled to Veterans Mortgage Life Insurance upon receipt of the Specially Adapted Housing Grant. Premiums for this life insurance are automatically deducted from VA compensation payments and the insurance remains in effect until the mortgage loan is paid in full, the home is sold, the veteran reaches age 70, or the veteran dies.

Mr. Chairman, as you are aware, membership in the Disabled American Veterans is limited to those veterans who incurred a service-connected disability while serving during time of war. The Legislative Program of the DAV is derived from the desires of our membership, expressed annually in resolution format. At our 1988 National Convention in Dallas, Texas, our membership adopted four resolutions seeking enhancements and program improvements in two VA insurance programs: RH Life Insurance, and Veterans Mortgage Life Insurance.

With respect to the RH Life Insurance Program, our membership adopted three resolutions seeking:

1. an increase from \$10,000 to \$20,000 in the face value of RH life insurance;
2. an extension from one year to two years for the time limit to apply for RH life insurance; and
3. legislation that would authorize an "open period" for eligible service-connected disabled veterans to apply for RH life insurance.

With respect to Veterans Mortgage Life Insurance, our membership adopted one resolution seeking an extension of eligibility for this program to all veterans rated permanently and totally 100% service-connected disabled by the Department of Veterans Affairs.

Prior to discussing the merits of these proposals, Mr. Chairman, I would like to briefly discuss the history of RH Life Insurance and the spirit and intent of Congress when they wisely and compassionately designed and passed legislation creating RH Life Insurance for service-connected disabled veterans.

Public Law 82-23, creating RH Life Insurance, was passed by Congress April 25, 1951. Not only did Public Law 82-23 create RH Life Insurance but it also established mandatory universal life insurance in the amount of \$10,000 for all active duty Armed Forces personnel.

Historically, World War I Armed Forces members could voluntarily participate in a government life insurance program (USGLI established by Public Law 65-90), with coverage up to \$10,000. Eighty-three percent of World War I active duty personnel participated in this program and the average face value of their policies was \$8,700 -- a value considered five times higher than the average life insurance policy held by Americans in 1917.

Identical life insurance coverage was provided to World War II Armed Forces personnel (NSLI established by Public Law 76-801) on a voluntary basis. At the peak of World War II, 95% of servicemen and women participated in this program and the average face value of their policies was \$9,500.

Mr. Chairman, when hostilities in Korea required mobilization of our forces, including the recruitment and retention of additional servicemen, several factors motivated Congress to examine government life insurance programs and enact legislation to create a more equitable form of life insurance for active duty Armed Forces members and veterans.

First, Congress was dissatisfied that 18% of overseas Korean servicemen, and 22% of state-side Korean Era servicemen neglected to obtain any life insurance and, that of those Korean Era veterans who did participate in life insurance, only 54% had the \$10,000 maximum coverage.

Mr. Chairman, according to a House Committee on Veterans Affairs Report (Committee Print No. 6, 82nd Congress, dated January 17, 1951), Congress was struck with the "basic inequity and inadequacy" of the existing insurance program for servicemen who did participate, and Congress was moved by the circumstances of the surviving dependents of those servicemen who neglected to participate in life insurance altogether, and were killed during the war.

Another factor motivating Congress was a GAO study cited in this House Committee report that stated "during the period 1940 to 1949 the VA had to set up approximately 26 million independent files based on that number of applications for insurance in varying amounts. Had [mandatory insurance] been in effect during that period, the total number of files with respect to an indemnity would have been 438,000 representing the total number of in-service deaths from October 1940 to December 31, 1949."

Further clarification of the intent of Public Law 82-23 can be found in evidence considered by Congress, contained in Senate Committee on Veterans Affairs Report (Committee Print No. 91, 82nd Congress, dated February 14, 1951) where Carl R. Gray, Jr., Administrator of the VA, stated "the proposed plan would guarantee maximum (\$10,000) protection to all, which is favored by many as being a great improvement over the present system under which many servicemen do not apply for any insurance and, in many instances, for less than the maximum protection." Elmer B. Staats, Assistant Director, Bureau of the Budget, informed the Senate Committee on Veterans Affairs that the "assurance of universal survivor protection in the amount of \$10,000 [contained in proposed legislation] appears to us to be desirable, and would result in greater equity for all."

Finally, Mr. Chairman, on January 15, 1951, in his annual budget message, President Truman provided further impetus for equitable life insurance for both active duty servicemen and women, as well as disabled veterans by stating the following:

Government liabilities for life insurance programs for servicemen and veterans are mainly for the cost of Administration and for payments on account of deaths traceable to the extra hazards of military service.

In view of the Korean hostilities and the current enlargement of the Armed Forces, there is a pressing need for new legislation to assure financial protection to the families of servicemen. The present national service life insurance program does not meet this need. Because it is optional, the protection is not carried by some servicemen and is held in less than adequate amounts by others. The system is complex and costly and absorbs excessive manpower, especially when the Armed Forces are large and manpower scarce.

It would be more equitable and over the last decade it would have been more economical, to provide a free and automatic \$10,000 indemnity to the survivors of all who died while in military service, and to *establish a special new system of voluntary insurance open only to veterans whose insurability at standard rates has been impaired by military service.* I recommend that this Congress now enact such legislation and extend its benefits to the dependents of those servicemen who have died while on active duty since June 27, 1950, if they did not have a like amount of serviceman's insurance protection. (*italics added for emphasis*)

Mr. Chairman, Public Law 82-23, conferred entitlement to mandatory free \$10,000 life insurance coverage for all active duty servicemen and women and simultaneously established a voluntary life insurance program in the amount of \$10,000 for all veterans whose insurability was impaired by a service-connected disability. Congress, very sensibly and compassionately, felt it important that there be universal equitable life insurance for active duty Armed Forces members, and that veterans with a service-connected disability have access to identical life insurance coverage in view of their sacrifices for our country.

Mr. Chairman since the enactment of Public Law 82-23 the maximum life insurance coverage for members of the Armed Forces quite properly has been periodically increased to the current \$50,000 maximum (effective January 1, 1986). Unfortunately, the maximum RH Life Insurance coverage for service-connected disabled veterans has not been increased since the inception of this program 38 years ago, and continues to be \$10,000, an amount woefully inadequate to provide for the life insurance needs of service-connected disabled veterans.

Mr. Chairman, I am aware that we need not remind the distinguished members of this Subcommittee of the sacrifices born by so many of our disabled veterans who live with the consequences of their service-connected disabilities. Clearly, these service incurred disabilities are a factor -- often a major factor -- in their inability to acquire suitable life insurance coverage at a standard rate.

As noted earlier, \$10,000 life insurance was considered to be five times greater than the average life insurance held by Americans in 1917, and this amount was initially selected as adequate to meet life insurance needs of American servicemen (raised to \$50,000 in January 1986) and disabled veterans in 1951.

Today, according to life insurance industry standards, adequate life insurance should be equal to five times the gross wages of the household wage earner. In 1950, the average mean salary of a household wage earner in the United States was

\$2,961, while today it is \$22,684 (Bureau of the Census, "Current Population Report -- Consumer Income," series P-60, Number 162).

The Life Insurance Marketing and Research Association in their 1988 publication, "Shifting Patterns of U.S. Life Insurance Ownership," reported that in 1984 all insured married American men averaged \$58,000 in personal life insurance coverage.

Mr. Chairman, life insurance for service-connected disabled veterans has kept pace with neither maximum life insurance coverage available to active duty servicemen, nor the mainstream of non-veteran members of our society. Unfortunately, for many disabled veterans service-connected for severe gunshot wound and shell fragment wound injuries sustained in combat, or veterans service-connected for a variety of residual wounds, injuries and illnesses suffered while captive as prisoners-of-war, RH Life Insurance is the only coverage available to them at an affordable price. These men and women who incurred disabilities in defense of our country with families of their own, are underinsured by any standard, including life insurance industry standards, life insurance currently available to active duty Armed Forces personnel, and by comparison with their non-veteran counterparts who hold life insurance policies that average face value \$58,000.

Mr. Chairman, it seems to us that the intent of Congress in 1951 was to properly establish equity in the availability and the amount of life insurance for active duty Armed Forces members and for disabled veterans whose insurability was impaired by their service-connected disabilities, and to encourage maximum participation in these programs by those eligible.

In view of these factors, at our August 1988 National Convention in Dallas, Texas, our membership adopted the following resolution:

RESOLUTION NO. 066
TO INCREASE THE FACE VALUE OF
SERVICE DISABLED VETERANS INSURANCE (RH)

WHEREAS, certain veterans are eligible for National Service Life Insurance (NSLI) under Section 722, Title 38, U.S. Code; and

WHEREAS, honorably discharged veterans released from active military duty on or after April 25, 1951, found by the Veterans Administration to be suffering from a disability or disabilities for which a compensable evaluation would be payable, shall, upon application, be granted insurance by the United States government under Section 722(a), Title 38, U.S. Code; and

WHEREAS, this insurance, commonly referred to as RH insurance, is non-participating with no dividends payable; and

WHEREAS, many of these veterans are uninsurable by private insurance companies as a result of their service-connected disabilities; and

WHEREAS, inflation has rapidly increased and diminished the value of the insurance since the maximum was set at \$10,000; NOW

THEREFORE, BE IT RESOLVED that the Disabled American Veterans in National Convention assembled in Dallas, Texas, July 24-28, 1988, support an amendment to Title 38, U.S. Code, to increase the face value of Service Disabled Veterans Insurance (RH) to \$20,000.

* * *

Mr. Chairman, we are aware that the RH Life Insurance Program is not self-sustaining and requires annual transfer of funds from the Veterans Insurance and Indemnities (VI&I) appropriation (\$2,289,000 in FY 1987). We are also fully cognizant of the fiscal constraints confronting not only the Department of Veterans Affairs, but the federal government in these times of scarce federal dollars. Nevertheless, Mr. Chairman, service-connected disabled veterans continue to be limited in their insurability by private sector life insurance companies as a direct result of their service-connected disabilities and many possess only RH Life Insurance at the maximum \$10,000 face value that has not been increased since 1951.

Mr. Chairman, at DAV request, House Veterans Affairs Committee Chairman G.V. "Sonny" Montgomery introduced H.R. 2826 during the 101st Congress, a measure that would accomplish the goal of increasing RH Life Insurance maximum face value coverage from \$10,000 to \$20,000. We respectfully urge the Subcommittee to favorably consider H.R. 2826 in order to offer service-connected disabled veterans an opportunity to provide more equitable life insurance coverage for their family members.

Mr. Chairman, Section 722 of Title 38, USC, provides eligible veterans a one year period to apply for RH Life Insurance from the date service-connection has been established for a service-connected disability. For one reason or another many eligible service-connected veterans have not applied (and do not apply) for this benefit within this period of time.

According to March 1989 VA statistics, there are 213,219 Korean Era veterans, 637,591 Vietnam Era veterans, and 408,083 peacetime veterans in receipt of compensation for service-connected disabilities. All Korean and Vietnam Era and the vast majority of peacetime service-connected disabled veterans are eligible for RH Life Insurance. While over one million disabled veterans are potentially eligible, as of September 1988, only 304,429 eligible disabled veterans had RH Life Insurance policies in force.

The reasons for this low participation are not clear, Mr. Chairman. In most instances, service-connection is established for many veterans shortly following release from active duty when they are at a young age, when interest in life insurance for most young American men is at a minimum. Upon discharge from service many young veterans receive voluminous correspondence from the VA and service department about their claims, Medical Board and Physical Evaluation Board findings, and other matters that seem to them of more pressing concern than "life insurance". Additionally, Mr. Chairman, veterans released from active duty after either a lengthy stay in service or the hospital (or both) are confronted with career and personal life readjustment problems that include establishing a residence, finding employment, selecting and applying for training and/or education, and re-acclimation with their families. Depending on the nature of their disabilities they may be further involved with obtaining post-service follow-up and rehabilitative care for service-connected disabilities.

To compound the problem, during the first year following release from active duty many veterans are contacted by private life insurance companies, adding additional elements of confusion to "benefits" they "must" apply for.

It seems to us Mr. Chairman, that these factors and circumstances experienced by young disabled veterans upon release from active duty contribute to -- if not cause -- their neglect or failure to familiarize themselves with and timely apply for RH Life Insurance coverage.

It is with this in mind, Mr. Chairman, that our membership adopted the following resolutions at our August 1988 National Convention in Dallas, Texas:

RESOLUTION NO. 245
EXTEND FROM ONE YEAR TO TWO YEARS THE PERIOD TO
APPLY FOR NATIONAL SERVICE LIFE INSURANCE (RH)

WHEREAS, Section 722, Title 38, U.S. Code, provides service-connected disabled veterans one year from the date that service-connection for disability is initially established by the VA in which to apply for NSLI; and

WHEREAS, many young veterans are solicited by private insurance companies immediately following their discharge from service, which has often caused confusion for such veterans when evaluating their need for life insurance; NOW

THEREFORE, BE IT RESOLVED by the Disabled American Veterans in National Convention assembled in Dallas, Texas, July 24-28, 1988, that Section 722, Title 38, U.S. Code, be amended to extend from one to two years the period in which service-connected disabled veterans may apply for National Service Life Insurance (RH).

* * *

RESOLUTION NO. 041
TO PROVIDE AN OPEN PERIOD TO APPLY FOR
SERVICE DISABLED VETERANS INSURANCE (RH)

WHEREAS, service-connected disabled veterans are entitled to apply for Service Disabled Veterans Insurance (RH) within one year from the date the VA grants service-connection for any disability; and

WHEREAS, many eligible veterans, due to financial difficulties and problems associated with readjustment to civilian life, did not apply for this insurance within the one year eligibility period; and

WHEREAS, many of these service-connected disabled veterans are now prepared and can afford to purchase this insurance but are not able to purchase comparable insurance coverage in the private sector; and

WHEREAS, precedent has been established to extend previously closed "eligibility periods" for certain other VA benefits and services, including insurance; NOW

THEREFORE, BE IT RESOLVED that the Disabled American Veterans in National Convention assembled in Dallas, Texas, July 24-28, 1988, seek the enactment of legislation that would authorize an "open period" for eligible service-connected disabled veterans to apply for coverage under the Service Disabled Veterans Insurance Program.

* * *

Mr. Chairman, at DAV request, House Veterans Affairs Committee Chairman G.V. "Sonny" Montgomery, introduced, during this session of the 101st Congress, H.R. 2819, a measure that would extend from one year to two years following the establishment of a service-connected disability, the time in which an eligible disabled veteran could apply for RH Life Insurance coverage.

We respectfully urge the Subcommittee to favorably consider H.R. 2819 in an effort to insure the availability of life insurance coverage to service-connected disabled veterans.

We also suggest, Mr. Chairman, that the Subcommittee explore the potential to devise legislation that would create a one time "open window" for eligible service-connected disabled veterans to apply -- and pay for -- coverage under the service disabled veterans (RH) Life Insurance Program.

Mr. Chairman our final comments this morning will focus on the Veterans Mortgage Life Insurance program administered by the VA and our resolution seeking an expansion of eligibility for this insurance program.

The Veterans' Mortgage Life Insurance program, initially established by Public Law 92-95, provides mortgage protection insurance to severely disabled service-connected veterans -- in receipt of a certain level of special monthly compensation for anatomical loss or loss of use of extremities and/or in combination with blindness -- that qualify for the VA's Specially Adapted Housing Grant.

Mr. Chairman, there exists many severely disabled veterans who, as a result of service-connected disabilities, are rated permanently and totally 100% disabled and are unable to purchase mortgage insurance protection from commercial insurers at any cost. Additionally, many of these severely disabled veterans have not accumulated the savings necessary to insure financial security for their families.

In view of these circumstances, at our August 1988 National Convention in Dallas, Texas, our membership adopted the following resolution:

RESOLUTION NO. 043
TO EXTEND ELIGIBILITY FOR VETERAN MORTGAGE PROTECTION
LIFE INSURANCE TO SERVICE-CONNECTED VETERANS
RATED PERMANENTLY AND TOTALLY DISABLED

WHEREAS, the VA Mortgage Protection Life Insurance is presently available to veterans entitled to the special adapted housing award under Section 801(a) of Title 38, U.S. Code; and

WHEREAS, service-connected veterans rated as permanently and totally disabled cannot obtain Mortgage Protection Life Insurance through commercial insurance companies; and

WHEREAS, their widows and dependents must bear an undue hardship upon the death of such veterans; NOW

THEREFORE, BE IT RESOLVED that the Disabled American Veterans in National Convention assembled in Dallas, Texas, July 24-28, 1988, seek the enactment of legislation which would extend VA Mortgage Protection Life Insurance to service-connected veterans who are rated as permanently and totally disabled.

* * *

Mr. Chairman, at DAV request, House Veterans Affairs Committee Chairman G.V. "Sonny" Montgomery introduced, during the first session of the 101st Congress, H.R. 2832, a measure that would extend to all 100% permanently and totally disabled service-connected Veterans Mortgage Protection Life Insurance. We respectfully request this legislation be favorably considered by the Subcommittee in an effort to provide these severely disabled veterans an opportunity to obtain mortgage protection insurance.

Mr. Chairman that concludes our testimony. I again wish to thank you and the Subcommittee members for permitting us this opportunity to present our views on the insurance programs administered by the Department of Veterans Affairs and, more specifically, to present our views on insurance program improvements and enhancements that would favorably impact service-connected disabled veterans, their dependents and survivors.

STATEMENT OF
ROBERT MANHAN, SPECIAL ASSISTANT
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE
SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

THE CURRENT STATUS OF THE DEPARTMENT OF VETERANS AFFAIRS INSURANCE PROGRAMS

WASHINGTON, D. C.

JULY 19, 1989

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for inviting the Veterans of Foreign Wars of the United States to participate in this oversight hearing on the operation of the Department of Veterans Affairs (VA) insurance programs. Many of our present VFW membership of 2.9 million, to include the Ladies Auxiliary, are either directly or indirectly involved in at least one of the eight insurance programs under review today. Government life insurance programs administered or monitored by the Department of Veterans Affairs is an important entitlement; one that the VFW wants to retain as a realistic economic benefit to veterans and their beneficiaries.

By way of general information we note all the programs under discussion today are administered or supervised by the VA Regional Office and Insurance Center (VAROIC) in Philadelphia with a field operating office at the VAROIC in St. Paul, Minnesota. The Director of the Philadelphia VAROIC has jurisdiction over the Philadelphia insurance activity and provides technical guidance for the operation of both the Philadelphia and St Paul insurance activities.

Both the Insurance Actuarial staff and the Insurance Program Management staff are located in the Philadelphia center. The former staff conducts mortality and disability studies with the principle recurring function of recommending the annual dividend to the Administrator. The latter staff has the primary responsibility of formulating policy, plans and procedures, evaluating the performance of the Insurance Operations Divisions, and reviewing and analyzing insurance legislation and regulations.

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The VFW is very much aware of the continuing administrative improvements the program administrator has accomplished over this past year to streamline service to veterans. In our judgment, the single most significant achievement occurred in April 1988 when the toll free number 1-800-322-8079 was installed. This has allowed our policyholder members, as well as our service officers nationwide, to receive a response to an insurance question in a matter of three or four minutes rather than the usual two to three weeks it took using letters. And our VFW service officer stationed in the Philadelphia VAROIC is very appreciative of all the professional assistance and courtesies extended to him and his staff by the VA over a period of many years.

At the present time, there are slightly more than seven million policy holders whose total face value amount of insurance is worth \$215 billion. And this year the VA will pay out approximately \$1 billion in the way of dividends on certain life insurance policies. In sum, this program is big business. Accordingly, we must satisfy ourselves the veteran is receiving the very best coverage possible in terms of today's economic realities. Hence, a brief outline and comment on each of the eight policies are offered for this Subcommittee's consideration.

U.S. Government Life Insurance (USGLI)

This program was established in 1919 to handle the insurance converted from the War Risk Term Insurance of WW I. About one and one-half million policies were issued. Today less than 46,600 remain in force. This program was closed in 1951. The average amount of each policy is \$3,700 and the average age of policyholders is about 80. In the late 1920s the VFW strongly supported legislation that removed all restriction on designation of beneficiary and established provisions for paying a veteran on a monthly basis from his insurance if he became totally and permanently disabled. And most recently in 1982, the VFW supported the VA proposal to eliminate the requirement for veterans to pay any further premiums on their USGLI policies. This became effective in January 1983. At that point in time, some 23,000 policyholders were still on premium paying status. Since 1921 this VA run insurance program has paid annual dividends based on investments limited by law to securities issued or guaranteed by the U.S. Government. The Department of Treasury does the actual investment on behalf of VA. The VFW notes the 1989 annual

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dividend will be about \$11 million. We strongly support the philosophy of paying the largest possible amount of dividends over the next several years in order to have this older generation of surviving veterans fully benefit from their own trust fund assets.

National Service Life Insurance (NSLI)

This program was established in 1940 to handle the insurance needs of veterans of WW II. The lapses were heaviest at demobilization after the end of war. This was followed by heavy reinstatement until the Korean Conflict began when a large number of new policies were recorded. This program ended in 1951. Over 22 million policies were issued. Today about 2,800,000 remain in force. The average amount of each policy is \$6,200 and the average age of the policyholder is almost 67. It is a matter of record that this insurance program has paid an annual dividend since 1950. The 1989 dividend will amount to more than \$866 million.

The VFW recalls with pride that during WW II we were instrumental in creating legislation to provide gratuitous insurance for individuals who were captured, besieged or isolated by enemy forces for a period of 30 days or more. Right after the war, in 1946, we supported legislation to issue NSLI policies to certain veterans with service-incurred disabilities. But most important was the VFW's successful efforts to cap or freeze at age 70 renewal rates for term premiums to financially assist the older policyholders who choose to retain their original term insurance as permanent life insurance. The VA implemented this policy in September 1984, less than six years ago. This was a necessary action to retain a unique veteran benefit feature. Today this particular VA run program is very solvent. It receives an average rate of return of 9.6 percent on its almost \$11 billion trust fund. Today the VFW goes on record to strongly support H.R. 2826, legislation to permit certain eligible veterans to purchase up to \$20,000 of this insurance. This reasonable proposal was introduced by request, by Chairman Montgomery. At the present time, veterans in this program are limited to a grand total of \$10,000 of insurance in both USGLI and NSLI.

Veterans' Special Life Insurance (VSLI)

In April 1951 Congress enacted this VA program in order to meet the insurance needs of Korean Conflict veterans. This provided automatic free insurance of

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\$10,000 for active duty personal from 1951 through December 1956, when the program closed. The VFW was instrumental in making this program available, without medical examination, to veterans separated from service between April 1951 and the end of December 1957. Of course, veterans paid term policy rates which increased with their age. In 1959 legislation allowed certain policyholders to convert to a permanent policy or fixed premium rate. It is a fact that this program was established by law on a nonparticipating basis, i.e. policyholders do not receive dividends. However over the 20 year period of time from 1954 to 1974, favorable claim rates and rising interest fees have resulted in the accumulation of a significant surplus over the necessary reserve levels. Accordingly, this program was made participating in 1974 and paid its first dividend in 1975. The 1989 dividend will amount to \$94 million. Over 803,000 policies were issued. Today about 323,500 remain in force. The average amount of each policy is just over \$9,000 and the average age of the policyholder is almost 57 1/2 years old. A key point being made here is the fact that if this insurance program had been run by a commercial firm, the above cited accumulated monies would have gone to the corporation and its stockholders rather than to the participating veterans. The VFW believes it may not always be more efficient or beneficial for veterans to contract out veterans programs under the guise of cost effectiveness or federal budgetary constraints.

Service Disabled Veterans Insurance (SDVI)

This program is available to veterans separated from service after April 1951 who are suffering from a service-connected disability but who are otherwise insurable. The insurance must be applied for within one year from the date of notice of rating of disability by VA. Unlike other Government life insurance programs, a total disability premium waiver may be granted in cases where the disability began prior to the effective date of the policy, providing the disability is service connected. This is also the only program of Government life insurance which is still open to new issues. Coverage is available in amounts from \$1,000 to \$10,000. Since this program insures marginally insurable lives at standard rates of premium it is not self-supporting and therefore pays no dividends. The excess cost of claims is met by periodic Congressional

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appropriations. Since this program began 37 years ago, almost 311,000 policies have been issued and the VA is currently issuing about 3,500 new policies each year, on the average. The face value of the average policy is close to \$9,100 and the average age of policyholders today is 47 1/2 years old. Of significance is the fact almost 24 percent of all these policies are on premium wavers. The VFW wishes to go on record at this time endorsing H.R. 2819, a bill to extend from the present one year to two years the period which veterans with service-connected disabilities may apply for this program. Mr. Montgomery introduced the bill by request on June 29, 1989. In addition the VFW asks this Subcommittee to seriously consider the equity of increasing the maximum amount of insurance from the present \$10,000 to \$50,000. The VFW recommends this action in Resolution No. 633, passed at our August 1988 National Convention. The VFW rationale is to provide service-connected disabled veterans with the same maximum coverage other veterans may obtain in the self-funded Servicemen's Group Life Insurance and Veterans Group Life Insurance programs; both to be discussed later in more detail.

Veterans' Reopened Insurance (VRI)

The VFW fought strongly during the early 1960s to have Congress enact legislation which provided for a reopening of the NSLI program, previously discussed, for the one year period of time from May 1965 to May 1966. This new program was titled VRI. Veterans had to meet certain limiting requirements to be eligible. About 228,000 policies were issued. Today, some 23 years later, only 126,000 remain in force. The average amount per policy is about \$6,300 and the average attained age is almost 67 years. It is interesting to again note this small program was originally designed to be nonparticipating, that is, not to pay dividends. However, through a combination of shrewd VA management, a little good luck, and high interest rates on U.S. Government securities, the program first started to reduce certain policy premiums in 1970. By 1979 the entire program was made participating by a change in the law supported by the VFW. Initial dividends were paid in 1980. This year a total of \$33 million in dividends will be paid on VRI accounts. We note the VA received an average rate of return of 10.11 percent on this trust fund investment last year.

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Veterans Mortgage Life Insurance (VMLI)

In the late 1960s and very early 1970s the VFW, along with several other concerned veterans organizations, helped shape legislation to provide financial protection to cover those disabled veterans who have received grants for the purchase of specially-adapted housing, to cover the outstanding home mortgage in the event of the veteran's death. In 1971 Congress established the VMLI program to be operated by the VA. The maximum mortgage insurance was \$30,000. In 1976 this amount was increased to \$40,000. The VFW regarded this sum as inadequate even 13 years ago. Therefore, the VFW lends its support to H.R. 2546, legislation which will increase the insurance to \$90,000. We note this bill was introduced on June 6, 1989, by Mr. Applegate of Ohio, this Subcommittee's chairman. The VFW also asks this body to now consider the merits of VFW Resolution No. 632, which was adopted in August 1988. In essence, it proposes to extend the eligibility requirements of this mortgage program to those veterans determined by the VA to be so helpless as to be in need of regular aid and attendance or who are housebound. The VFW believes that once the VA has reviewed its master file on veterans who fall into these categories they will find that the variables of age and income will support our contention that this proposed expansion of eligibility will not overload the program. This type of insurance is unique in that at the death of the veteran, the insurance is payable only to the holder of the mortgage loan.

At the present time some 5,300 veterans participate with an average of \$34,500 in mortgage insurance. It is also a fact that this program, which has an average annual death rate of three percent, is second highest only to the WW I USGLI program, which has slightly more than a ten percent annual death rate.

Servicemen's Group Life Insurance (SGLI)

This program began in 1965 to meet the insurance needs of the Vietnam-era servicemember. It is still in effect today. Unlike previously discussed VA administered programs that provided individually underwritten and issued policies, the legislation creating SGLI provides for group coverage. In addition this program is to be administered by the commercial industry, Prudential Life Insurance Company of America, and not the Government. Today all members of the uniformed services, members of reserves and national guard who are on part-time or full-time

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duty are insured up to \$50,000 unless they state in writing to be covered for either a lesser amount, or not to be covered at all. Premiums are paid for by the serviceperson. At the present time, there are about 3.5 million members covered by this group insurance. The average face amount of insurance is \$49,900 and the average age of members in this program is 29. The average death rate is about one tenth of one percent (.01%) each year or 353 members.

The original 1965 monthly premium rate was set at 20 cents per \$1,000 worth of coverage. Over the past 24 years the rate has been reduced to 8 cents per \$1,000 worth of insurance. The last rate reduction took place some 5 years ago. Prudential was able to achieve this 60 percent reduction based on continuing favorably low mortality experience and investment income.

Veterans' Group Life Insurance (VGLI)

This is a program of post-separation insurance which provides for the conversion of SGLI, discussed above, to a five year term policy. This program like SGLI is only supervised by VA but actually administered by the commercial industry; again Prudential. In fact, a new contract was signed in September 1988 between these parties that required, among other things, a biennial (once every two years) audit of SGLI expenses by an independent auditing firm.

At the end of the initial five year term period, that is, five years after separation from service in most cases, the veteran has the option to convert the insurance with any one of more than 300 participating commercial insurance companies. The veteran then pays standard commercial rates and is no longer under any government umbrella.

It is a fact that Public Law 100-332 of July 1988 includes a provision that exempts both the SGLI and VGLI programs from paying administrative fees and state taxes. This change is expected to save about \$4 million annually.

VGLI began in August 1974 and is still open. At the end of 1988 the program had only 281,000 members who carried on average about \$43,200 worth of life insurance. Their average age was 32 and the their average annual death rate was less than three tenths of one percent (.029).

RECAP OF POLICIES

A quick review of the above programs indicate that veterans who were or are insured directly by the U.S. Government received substantially greater benefits

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than their respective original policies ever promised. Specifically, the VFW notes that WW II era veterans covered under NSLI have had their monthly annuity payments increased by 50 percent and that as recently as the fall of 1988 P.L. 100-687 allowed the VA to increase the premium discount given to these policyholders who pay their premiums in advance. We also point with some degree of pride to the fact that VA was able to cap premiums for all 70 year old veterans who hold term policies. Last, but certainly not least, are the bonus advantages that accrued to participants of both the VA operated VSLI and VRI programs which now pay dividends, thanks primarily to very decent returns on investments in U.S. securities.

Bearing these facts in mind, the VFW asks this Subcommittee to consider the merits of evaluating the advantages and disadvantages to veterans who are participating in the two newest group programs, SGLI and VGLI. If there are to be any significant long term financial advantages the VFW would only want to ensure that veterans are the recipients of this good fortune rather than any commercial life insurance corporation with its diversified business holdings and interests.

Again, thank you for taking the necessary time to review this very important benefit program. This concludes our formal statement.

TESTIMONY OF THE
JEWISH WAR VETERANS OF THE USA
BEFORE THE
SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS

PRESENTED BY

COLONEL HERB ROSENBLEETH, USA (RET)
NATIONAL LEGISLATIVE DIRECTOR
JEWISH WAR VETERANS OF THE USA

JULY 19, 1989

Mr. Chairman and Members of the Subcommittee on Compensation, Pension and Insurance of the House Veterans' Affairs Committee, I am Colonel Herb Rosenbleeth, US Army (Ret), the National Legislative Director of the Jewish War Veterans of the United States of America, a congressionally chartered veterans' service organization. On behalf of our membership, I thank you for the opportunity to appear today to testify before this distinguished committee.

Since its founding in 1896, the Jewish War Veterans of the USA, the oldest active veterans' organization in the United States, has stood for a strong national defense and for just recognition and compensation for veterans. The Jewish War Veterans prides itself with being in the forefront among our nation's civic groups in supporting the well-earned rights of veterans, in promoting American democratic principles, in defending universal Jewish causes and in vigorously opposing Bigotry, anti-semitism, and terrorism - here and abroad.

Mr. Chairman, JWV believes that VA's insurance programs represent one of the highlights of the Department of Veterans Benefits. The VA insurance program provides significant insurance protection for those veterans who have chosen to participate.

JWV wishes to commend you, Mr. Chairman, and the Members of this Subcommittee for your continuing review of the several VA insurance programs. These programs are vital to families of our nation's veterans and your continued oversight is most appreciated.

The life insurance programs administered and supervised by the Department of Veterans Affairs provide over \$200 billion in insurance protection, making it one of the largest insurers in the country. Sufficient reserves are available for the United States Government Life Insurance (USGLI), National Service Life Insurance (NSLI), Veterans Special Life Insurance (VSLI), and Veterans Reopened Insurance (VRI) programs to ensure that appropriated funds will not be needed to meet the liabilities of these programs. As anticipated, the Service-Disabled Veterans Insurance (SDVI) and

Veterans Mortgage Life Insurance (VMLI) programs, which insure the lives of disabled veterans at standard premium rates, continue to require annual subsidies from appropriated funds.

The Regional Office and Insurance Center in Philadelphia, which is the national headquarters for eight of the nationwide life insurance programs, provides a wide variety of effective services. Our membership and Service Officers report most favorably on the responsiveness and attitude of the staff in the insurance program. This office and its field operating office at the Regional Insurance Center in St. Paul, Minnesota, collect premiums, maintain policies, and pay death and disability claims.

JWV commends the VA for implementing a number of recent improvements to the insurance programs, for achieving legislative, regulatory and administrative initiatives, and for completing several changes to the remittance processing procedures. Included among these service improvements are:

- . A nationwide toll-free number, introduced in April, 1988, which improves and individualizes service to insured veterans and beneficiaries. This toll free number greatly reduces the response time and personalizes service to policy holders.
- . Legislation was enacted which provides the authority to periodically increase the monthly installment payments to beneficiaries receiving insurance proceeds under an annuity option. Effective August, 1988, beneficiaries of WWII policies had their payments increased by 50%.
- . A legislative change providing for the payment of interest to beneficiaries of insurance death settlements, and to policyholders with matured endowment policies, was finalized.

- . Legislation has been passed which authorizes an adjustment of discount rates for premiums paid in advance which will decrease the cost of premiums paid in advance.
- . The insurance staff implemented a change that increased the face value of the insurance that policyholders could purchase with their dividends by 15 percent.
- . The maximum amount of Servicemen's Group Life Insurance (SGLI) and Veterans Group Life Insurance (VGLI) has been increased from \$35,000 to \$50,000.
- . Term policies on which premiums normally increase every five years have been "capped" at the age 70 premium rate in the Veterans Special Life Insurance (VSLI) program through a regulatory change. This action provides financial relief to older policyholders who have retained their term insurance as a form of permanent insurance protection.

In addition, the Insurance Service has developed several options to improve the convenience of paying premiums. These include electronic fund transfers and state-of-the-art remittance processing equipment.

While JWV commends the Department of Veterans Affairs for their overall operation of the insurance programs, there are three areas in which we advocate change. These include the Service Disabled Veterans' Insurance (SDVI) program, the Veterans' Mortgage Life Insurance for those members who have received a specially adapted housing grant, and additional insurance options for today's veterans.

The SDVI insurance is designed to provide life insurance to honorably discharged service-connected veterans upon their release from active duty. Good health, except for the service-connected disability, is a requirement. This insurance is issued in amounts from \$1,000 to \$10,000. Since veterans may not obtain paid-up additives, the maximum face value is \$10,000.

JWV strongly recommends this face value be increased. It is emphasized that the service-connected disability prevents the veteran from purchasing commercial insurance at a reasonable rate. Additional protection should be provided by the VA so that veterans with service-connected disabilities can be adequately covered.

JWV also urges an increase in the coverage available for service-connected disabled veterans who have received grants for specially adapted housing. PL 94-433, passed about twelve years ago, increased the maximum coverage to the current \$40,000 limit. In view of the enormous increase in housing costs since that time, and as this insurance provides financial protection for severely disabled veterans whose medical conditions preclude them from obtaining coverage, it is necessary to increase this protection to match today's skyrocketing housing costs. Otherwise, the widows of veterans who buy specially adapted houses are forced to sell the family home after the death of the veteran.

JWV's third area of interest are today's veterans who cannot purchase the variety of insurance products available to veterans of earlier generations. JWV recommends that some type of whole life or universal life policies be offered to veterans who were never given this alternative.

Mr. Chairman, JWV commends the Department of Veterans Affairs for the efficient management, innovative program changes and professionalism demonstrated in administering the several insurance programs. The Jewish War Veterans of the USA appreciates being able to appear before this subcommittee and we are especially grateful for your continued monitoring of the VA insurance programs.



Statement of
The American Legion

1608 K STREET, N. W.
WASHINGTON, D. C. 20006

from

SAMUEL J. WALSH, DEPUTY DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION

and

GILBERT J. LAVERDA, CHIEF, INSURANCE ACTIVITIES
NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION
THE AMERICAN LEGION

to the

SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

on

DOA INSURANCE OPERATIONS

JULY 19, 1989

STATEMENT OF GILBERT J. LAVERDA, CHIEF, INSURANCE ACTIVITIES
NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION
THE AMERICAN LEGION
TO THE SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE
U.S. HOUSE OF REPRESENTATIVES
JULY 19, 1989

Mr. Chairman and Members of the Subcommittee:

The American Legion appreciates this opportunity to comment on the present programs of the Department of Veterans Affairs in providing life insurance protection and benefits for past and present active duty and reserve members of the United States military services and their beneficiaries.

These programs are divided between those directly administered by VA for veterans having service into the 1950's and for those who have service-connected disabilities - the United States Government Insurance (USGLI) and National Service Life Insurance (NSLI) programs - and those programs supervised by VA, but administered by the Prudential Insurance Company of Newark, NJ, for active duty and reserve personnel, and those released from active duty from 1965 through the present. These latter programs are, respectively, the Servicemen's Group Life Insurance (SGLI) and Veterans Group Life Insurance (VGLI).

As commented on at the oversight hearing last year, the overall performance of these programs appears to be generally adequate. Service to NSLI and USGLI policyholders continues to be adversely affected by cuts in operating budgets, hiring freezes, and high employee turnover. However, the VA Insurance Center is continuing the application of new computer and communication technology to overcome many of these problems and improve timeliness and quality of service provided. Real time, direct entry and toll-free telephone systems have become part of routine processing operations. These now make possible automated premium payments by electronic funds transfers from a policyholder's checking account similar to the system of premium deductions directly from VA benefits and military retired pay. In addition, information on RH life insurance and an invitation to apply is included with the veteran's basic disability award notice.

In an effort to provide increased levels of benefits within the parameters of actuarially sound insurance principles, Congress late last year enacted a number of improvements in the insurance program. PL 100-323 authorized an increase in payments to NSLI annuitants by a full 50% and discontinued the levying of state taxes on premiums

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paid for SGLI and VGLI coverage which reduces the costs of these programs by some \$4.5 million annually. In addition, it capped NSLI term premiums at the age 70 rate. These changes have been placed into effect. PL 100-687 provided for the payment of interest on delayed life insurance settlements and permits VA to significantly increase the discount offered to policyholders who elect to pay their premiums in advance. The American Legion strongly endorsed these measures as being positive and beneficial. However, we note with some disappointment that, due apparently to a lack of data processing resources, these latter provisions will not be implemented until some time in FY 1990. We urge VA to complete the necessary action as soon as possible.

Although funding for the NSLI/USGLI programs at its current level is considered by The American Legion to be sufficient, we believe this must be maintained as a minimum in order to ensure that veterans in the programs and their beneficiaries receive the best possible service in a responsive and timely manner.

With respect to the SGLI and VGLI programs, we would like to address several problem areas and offer recommended changes.

In many SGLI cases where the insured's death occurs in service or during the 120 day transition period following separation from service, payment of insurance proceeds may be delayed for a period of months due to the problem of verification of SGLI coverage. When a servicemember and his/her personnel records are lost or destroyed in an accident or action causing the death at sea or in the air, these records must be reconstructed from alternative sources to ascertain if SGLI coverage was in force. This is necessary, since the service department must provide Prudential, the SGLI carrier, with a certificate of coverage in order for benefits to be paid. Such delays can create a severe financial hardship for the insured's family. Where deaths occur within 120 days of separation, there are similarly long delays associated with obtaining the necessary insurance information - i.e. whether SGLI is in force and how much, beneficiary, etc. from the National Personnel Records Center or the Army Personnel Records Center, in St. Louis, Missouri.

The American Legion believes there is a critical need for the service departments to implement a uniform, emergency personnel records system. This would give a computerized, on-line, fast retrieval capability that would assist not only in the timely payment of SGLI claims, but also assist in the processing of other benefits, such as the Survivor Benefit Plans. Currently, each service department operates its own system, with its own procedures. We are especially concerned by the lack of priority accorded this problem by the Department of Defense and urge that prompt action be taken to

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ensure current, up-to-date insurance information is available, if needed, in order that benefit payments can be processed and paid as expeditiously as possible.

In testimony presented to this Subcommittee last year, we also discussed the problems associated with tracing and reissuance of lost or stolen Treasury checks issued as insurance proceeds to veterans and beneficiaries. This situation has not materially improved in the last twelve months. Currently when VA notifies the Treasury Department of a reported lost or stolen benefit check, it often takes up to six or more months to complete the tracing process and reissue the check. When an insurance settlement or endowment is in the range of \$10,000 to \$20,000 or more, the resultant delay may place a substantial and unwarranted burden on the recipient. It should be noted that VA has maintained a dialogue with the Treasury Department in an attempt to improve the response time. However, their efforts to date have met with little success due not only to differences in certain ADP equipment and procedures, but to the relatively low priority placed on servicing VA tracer requests by the Treasury Department in comparison with those of other Federal agencies.

The American Legion continues to support VA in their endeavor to try and improve matters. We believe the Treasury Department should be vigorously urged to give greater emphasis to the servicing of veterans and their beneficiaries who are entitled to and in need of these funds. Certainly those who have responded to their country in its time of need deserve no less.

In conclusion, the payment of life insurance benefits to our veterans, those in active service and their beneficiaries is one of the fundamental compensations for military service. The various insurance programs which have been enacted over the years recognize not only the dangers of war, but the not inconsiderable hazards of peacetime service for those in the Armed Forces around the world. The American Legion fully supports the efforts of the Department of Veterans Affairs to provide a high level of service to veterans and their beneficiaries. We also wish to commend you, Mr. Chairman, for your work and that of this Subcommittee in maintaining continuing oversight of these important programs and the legislative action in the last Congress to provide a number of improvements in insurance benefits.

Mr. Chairman, that concludes our statement.

Statement of
Richard W. Johnson
Director of Legislative Affairs
Non Commissioned Officers Association of the USA
Submitted to
Subcommittee on Compensation, Pension and Insurance
Committee on Veterans Affairs
U.S. House of Representatives
on
Insurance Oversight
July 19, 1989

As the committee meets to discuss improvements in insurance programs administered by the Department of Veterans Affairs NCOA urges the consideration of an increase in maximum coverage under SGLI and the extension of VGLI to retirees subject to recall to active duty. Since both the Serviceman's and Veteran's Group Life Insurance programs are actuarially sound, premium supported programs an improvement in the law would be necessary but no additional appropriations would be required except during time of war.

NCOA urges the increase of SGLI maximum coverage to \$100,000. Such an increase is fully warranted in view of inflation, the increasing size of military pay, the decreasing value of Defense Department death gratuity payments, and the ever increasing number of married personnel. Only during time of war would enactment of this proposal engender additional federal outlays. However, the committee should note that the entire extra hazard premium paid by the United States during the Vietnam war was less than the cost of a B1 bomber.

Several years ago, recognizing the valuable service contributed by members of the reserve components, this committee adopted a proposal to extend VGLI enrollment to reservists on a renewable term basis until age 60. This benefit was extended to reservists in large part because of their availability for immediate recall to active duty. Since the law was enacted, the Department of Defense has integrated military retirees into emergency mobilization orders and has even issued "hip pocket" orders to many directing them where to report during a national emergency. In summary, the military retiree whether so designated, has become a reserve asset and should be accorded VGLI optional coverage on that basis.

Thank you for your consideration of these two most important issues.



PARALYZED VETERANS
OF AMERICA
Chartered by the Congress
of the United States

STATEMENT FOR THE RECORD
BY
JOHN C. BOLLINGER, ASSOCIATE LEGISLATIVE DIRECTOR
PARALYZED VETERANS OF AMERICA
BEFORE THE
SUBCOMMITTEE ON COMPENSATION, PENSION, AND INSURANCE
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING
THE DEPARTMENT OF VETERANS AFFAIRS' INSURANCE PROGRAMS
JULY 19, 1989

Mr. Chairman and Members of the Subcommittee, on behalf of the members of Paralyzed Veterans of America (PVA), I wish to thank you for this opportunity to present the views and concerns of PVA regarding the operation of the Department of Veterans Affairs' (DVA) insurance programs.

For many of PVA's members, DVA life insurance and mortgage protection represent the single source of insurance coverage available to individuals otherwise ineligible for commercial coverage due to severe and total disabilities. This Subcommittee's concern for the welfare of the DVA's PVA. The efficient operation of these programs and the potential embellishment of existing policy provisions are of vital importance to those of us who hold DVA policies and to our beneficiaries.

Mr. Chairman, PVA believes that DVA management of both the administered and supervised insurance programs continues to represent one of the highlights of the Veterans Benefits Administration. While providing over \$214 billion in insurance protection, the program does indeed make significant contributions toward providing adequate insurance protection for all veterans, their

families, and dependents. The dedicated staffs in the Philadelphia and St. Paul Insurance Centers continue to provide excellent service. Management initiatives incorporated over the past several years have contributed to the sophistication and expertise of the overall insurance operation.

PVA is encouraged by the Secretary's decision to provide further increases in the amount of paid-up additions that can be purchased with insurance dividends. We believe initiatives such as these are essential to the insurance needs of all veterans. With the maximum coverage on basic DVA policies remaining at \$10,000, paid-up additions represent the only manner by which policy holders can increase their coverage other than purchasing commercial life insurance. Unfortunately, disabled veterans holding SDVI policies are unable to take advantage of this feature since such policies are non-participating and do not pay dividends.

The Department's initiative to place a cap on VSLI term insurance premiums also represents an important benefit to many Korean War veterans. This embellishment of the VSLI program is indicative of the types of improvements the Department has and can make via amendments to existing regulations. When necessary, the Department has also requested legislation to accomplish the improvement of veterans' insurance programs. P.L. 100-687, among other things, authorized the Department to increase the discount rate for which veterans are eligible if they pay premiums in advance. We applaud such efforts and encourage the Secretary to continue to enhance these insurance programs.

Regarding the delivery of service to DVA policy holders, PVA believes the two insurance centers are excellent role models for other benefit delivery services. The toll-free telephone service, the successful implementation of more sophisticated ADP programming, and a staff that exemplifies professionalism and compassion when dealing with the public, all contribute to the success of a service in which the Department of Veterans Affairs can be proud.

For several years, PVA and other VSO's have advocated increases in the maximum face values of DVA life insurance policies available to eligible veterans. As we have contended in the past, the necessity of providing such

additional insurance protection is most apparent in the SDVI (RH) program which offers life insurance to veterans with service-connected disabilities. This is true because many of these veterans, due primarily to the disabilities for which they are service-connected, are unable to supplement their basic \$10,000 DVA policies with commercial life insurance primarily because of cost prohibitive substandard premium rates.

Based on recommendations made by private commercial insurers and surveys of our membership, PVA has advocated several methods by which the life insurance needs of disabled veterans could be achieved. Increasing maximum face values from \$10,000 to \$50,000 with additional optional coverage represents but one method by which this could be accomplished. Other variations of increased coverage have been promoted over the years by PVA and the other VSO's. Most recently, the Honorable G.V. (Sonny) Montgomery introduced H.R. 2826, by request, which provides a maximum of \$20,000 coverage of NSLI for certain eligible veterans. PVA can certainly support H.R. 2826.

At your insurance oversight hearing on September 13, 1988, PVA suggested several alternatives which we believed could enhance and expand the coverage for Service Disabled Veterans Insurance (SDVI) and Veterans Mortgage Life Insurance (VMLI). After the 100th Congress adjourned in October 1988, PVA met on several occasions with committee staff to further develop and refine our initiatives. We also had the opportunity to visit the Philadelphia Regional Office and Insurance Center and discussed our initiatives with both management and actuarial staff.

As a result of our meetings in Philadelphia, the staff there provided us with cost estimates for various alternatives to our proposals. It quickly became apparent that current budget restraints to reduce the deficit would prohibit the enactment of legislation to the extent that we had proposed in the past. The DVA Insurance Center's actuarial staff estimated that the unfunded liability for such increases would increase from \$370 million to \$3.5 billion as these policies mature over the next forty years. In order to achieve a realistic solution to the life insurance needs of disabled veterans, we reassessed our goals to reflect both fiscal austerity and definitive program objectives.

At the outset, we wish to emphasize two points:

- * DVA supplemental insurance (in excess of the \$10,000 face value) for SDVI policies is not currently available at any price even if the veteran was willing to pay excessive substandard rates.
- * In the absence of D.I.C. reform, increased SDVI face values represent the only potential enhancement of existing programs by which S/C death benefits can be improved for the survivors of disabled veterans.

In keeping with our goal to reflect fiscal austerity in any new insurance initiative, we must emphasize that our purpose is not merely to make the government subsidy so minimal that the program is acceptable, but rather to identify those veterans who are in the greatest need of supplemental insurance because their catastrophic, service-connected injuries or diseases make it impossible for them to realistically supplement their basic RH coverage with commercial insurance.

PVA, therefore, recommends that eligibility for supplemental life insurance coverage be limited to veterans who hold current RH policies and who are determined to be eligible for waiver of premiums due to total disability. We believe that by targeting this group, we can direct scarce resources where they are most needed. In order to further minimize additional government subsidies, we recommend that any new supplemental insurance coverage not include a waiver of premium provision. In other words, an eligible RH policy holder would be covered by his basic policy for which he has waiver of premiums plus the supplemental coverage he has elected for which he would pay standard RH premiums. Approximately 42,000 (25 percent of all RH policy holders) currently have their premiums waived due to total disability. The actuarial staff in Philadelphia has estimated that about 10,000 of these individuals would be interested in purchasing supplemental coverage.

Assuming an average issue age of fifty for those obtaining supplemental coverage, and assuming that 10,000 insureds elect to purchase an average of \$50,000 of such coverage, the actuarial staff estimated that the government's subsidy for the additional SDVI coverage in our proposal for FY '89 would be

only \$8.3 million. The subsidies for supplemental coverage would reduce each year for the next four years and in FY '93 would only be \$4.4 million. The unfunded liability for both basic and supplemental coverage would be \$180 million over the next forty years (compared to \$3.5 billion that would be required to enact previous proposals). These figures are based on estimates we received in January of this year.

Mr. Chairman, service-connected veterans, especially those with catastrophic injury or disease, have been left far behind their non-veteran counterparts in the area of life insurance. And certainly one of the most disturbing features of the life insurance issue to our members is that the very disabilities for which they receive DVA compensation are the same disabilities which disqualify them from obtaining sufficient life insurance.

PVA encourages this Subcommittee to consider our proposal to amend the present SDVI (RH) program in order to provide sufficient life insurance protection for these veterans. We believe this initiative reflects our original goals to maintain fiscal austerity and definitive program objectives. We will be glad to work with you and committee staff in any way possible to attain a level of adequate RH protection at reasonable rates. We certainly recognize the concerns associated with any new legislation which requires additional funding, especially when DVA health care is in critical condition. We are hopeful, however, that the relatively small government subsidy associated with enhanced insurance protection for this group of totally disabled veterans, will represent a realistic and acceptable solution to this very important issue.

Mr. Chairman, on June 6, 1989, you introduced H.R. 2546, by request, to increase the amount of Veterans' Mortgage Life Insurance (VMLI) available to veterans who qualify for the specially adapted housing grant. Specifically, the bill increases the maximum face value of a VMLI policy from \$40,000 to \$90,000.

Veterans Mortgage Life Insurance is designed to provide financial protection to cover an eligible veteran's outstanding home mortgage in the event of his or her death. The insurance is restricted to those disabled veterans who have

received grants for the purchase of specially adapted housing. The legislation which provided this mortgage life insurance was originally enacted on August 11, 1971 and provided a maximum coverage of \$30,000. Effective October 1, 1976, Public Law 94-433 raised the maximum to \$40,000. In 1976, the Congress justified the increase in VMLI coverage by pointing out that the average cost of a specially adapted house had increased from \$35,000 (1971) to \$50,000 (1976). The increased VMLI coverage, coupled with the specially adapted housing grant, was sufficient to minimize the unprotected mortgage balance at time of death. Since PL 94-433 increased the limitation thirteen years ago, cost factors involved in all types of housing, both new and old, have more than doubled.

Mr. Chairman, PVA is most appreciative for your introduction of H.R. 2546. By raising the maximum VMLI coverage to \$90,000, the vast majority of survivors of severely disabled veterans will not face the prospect of losing their homes due to the significant reduction in family income when the veteran dies. Following your introduction of H.R. 2546, PVA has received several letters in response to an article concerning VMLI legislation in our magazine, Paraplegia News. We wish to share several comments from veterans and their families who live in specially adapted homes and count on VMLI to protect their interests.

From Montana: "...my husband has been a quadriplegic for the last 17 years as a result of a service-connected injury. We do have the \$40,000 VMLI policy but that leaves \$30,000 uninsured. We have tried to get mortgage insurance through our bank which holds the mortgage but we have always been turned down because of my husband's disability. We have two children, ages nine and seven, and the sad reality is that we would not be able to keep the house if something would happen to Mike."

From Colorado: "Because of my 100 percent disability, it is not possible for me to acquire mortgage life insurance for any semblance of a reasonable premium rate. ...In the event of my death, my wife and children will be profoundly affected by the unprotected mortgage balance. I foresee no option for them but to sell our existing home..."

From Illinois: "I am writing on behalf of my son, Robert, .. who is 100 percent disabled, service connected, with MS. He is one of the people who has just been denied mortgage insurance to cover the balance that will be owed after the VA pays \$40,000. As it stands now, I will have to sell the house immediately and move, if he should die. I've been taking care of him for 19 years now. I sleep in a chair by his bed and know every time he wakes. God forgive me...I'm just trying to explain how it is. I wouldn't have it any other way, I love him very much and I wish I could do more for him. ...if he should die, all benefits stop for me. It would really be a great help if the mortgage life insurance could be increased to \$90,000."

Mr. Chairman, these families have very real concerns. They, and many families like them, will indeed be unable to handle large mortgage balances once the veteran's 100 percent compensation is terminated. For a relatively small subsidy on the part of the government, the survivors of severely disabled veterans will not face the prospect of losing their homes due to a significant reduction in family income. The enactment of H.R. 2546 will prevent the likelihood of such a loss.

The actuarial staff at the Philadelphia Insurance Center has estimated that this legislation would increase the VMLI subsidy by \$1.7 million in FY 1990. Over the course of the next several years, they expect the additional subsidy to increase slightly through FY 1994 to \$2.2 million.

PVA is hopeful that the introduction of H.R. 2546 will provide an opportunity for all HCVA Members to consider the benefit of the bill as well as the relatively low government subsidy it would require. As always, we look forward to working with you and Committee staff on this and other issues which affect our Nation's veterans.

That concludes our statement. We will be pleased to respond to any questions you may have.